FINANCIAL RESULTS

Management's responsibility for financial reporting

The financial statements of the Canadian Wheat Board included in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the board of directors. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and reflect the results for the 2005-06 pool accounts, Producer Payment Options and the financial status of the Corporation at July 31, 2006.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by corporate audit services that conducts periodic reviews of different aspects of the Corporation's operations.

The board of directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board of directors exercises this responsibility through the Audit, Finance and Risk Committee of the board of directors, which is composed of directors who are not employees of the Corporation. The Audit, Finance and Risk Committee meets with management, the internal auditors and the external auditors on a regular basis, and the external and internal auditors have full and free access to the Audit, Finance and Risk Committee.

The Corporation's external auditors, Deloitte & Touche LLP, are responsible for auditing the transactions and financial statements of the Corporation and for issuing their report thereon.

Adrian Measner

Adrian Measner
President & Chief Executive Officer

B Chell

Brita Chell
Chief Financial Officer

Winnipeg, Manitoba
November 15, 2006

Auditors' Report

To the Board of Directors of the Canadian Wheat Board

We have audited the financial statements of the Canadian Wheat Board which includes the balance sheet as at July 31, 2006 and the combined statement of pool operations and statement of distribution to producers for the crop year then ended, the statements of operations and statements of distribution to producers for the wheat, durum and designated barley for the crop year ended July 31, 2006, and for barley for the six month period ended January 31, 2006 and for the six month period ended July 31, 2006, the statements of operations for wheat, durum and designated barley producer payment options for the crop year ended July 31, 2006, and for barley for the six month period ended January 31, 2006 and for the six month period ended July 31, 2006, the statement of cash flow for the crop year ended July 31, 2006, and the statement of administrative expenses for the crop year ended July 31, 2006. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 2006 and the results of its operations and the cash flow for the periods shown in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
November 15, 2006

BALANCE SHEET

AS AT JULY 31 (dollar amounts in 000's)	2006	2005
ASSETS		
Accounts receivable		
Credit programs (Note 3)	$ 2,748,530	$ 3,926,944
Non-credit sales	10,732	12,450
Advance payment programs (Note 4)	448,069	333,794
Prepayment of inventory program	30,906	38,914
Other	55,380	50,000
	3,293,617	**4,362,102**
Inventory of grain (Note 5)	783,151	827,153
Deferred and prepaid expenses (Note 6)	107,601	40,187
Capital assets (Note 7)	71,699	47,659
Total assets	**$ 4,256,068**	**$ 5,277,101**
LIABILITIES		
Borrowings (Note 8)	$ 3,332,317	$ 4,150,528
Accounts payable and accrued expenses (Note 9)	146,663	156,391
Liability to agents (Note 10)	381,421	508,595
Liability to producers – Outstanding cheques	21,665	20,703
Liability to producers – Undistributed earnings (Note 11)	324,636	386,651
Provision for producer payment expenses (Note 12)	2,266	1,741
Special account (Note 13)	2,788	3,880
Contingency fund (Note 14)	44,312	48,612
Total liabilities	**$ 4,256,068**	**$ 5,277,101**

Approved by the board of directors:

Ken Ritter
Chair, board of directors

Adrian Measner
President and Chief Executive Officer

COMBINED POOL ACCOUNTS

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2006	2005
STATEMENT OF POOL OPERATIONS*		
Receipts (tonnes)	**18 788 084**	**19 370 521**
Revenue	**$ 3,498,338**	**$ 3,739,343**
Direct costs		
Freight	204,358	181,201
Terminal handling	141,261	114,623
Inventory storage	66,167	74,098
Country inventory financing	6,618	5,489
Inventory adjustments (Note 15)	(20,658)	(18,818)
Other grain purchases (Note 16)	35,824	25,603
Other direct expenses (Note 17)	24,716	35,058
Total direct costs	**458,286**	**417,254**
Net revenue from operations	**3,040,052**	**3,322,089**
Other income (Note 18)	149,274	163,441
Net interest earnings (see p.52)	36,138	53,384
Administrative expenses (Note 19)	(69,844)	(69,212)
Grain industry organizations	(2,131)	(1,647)
Earnings for distribution	**$ 3,153,489**	**$ 3,468,055**

* Excludes operation of Producer Payment Options program

	2006	2005
STATEMENT OF DISTRIBUTION		
Earnings distributed to pool participants		
Receipts (tonnes)	**18 094 724**	**18 199 067**
Initial payments on delivery	$ 2,418,548	$ 2,513,799
Adjustment payments	335,716	302,499
Interim payment	155,652	200,947
Final payment	125,509	223,440
Total earnings distributed to pool participants	3,035,425	3,240,685
Transferred to Contingency fund		
Undistributed earnings (Note 14)	789	2,278
Non-pool Producer Payment Options program		
Receipts (tonnes)	**693 360**	**1 171 454**
Sales returns paid to payment program	117,275	225,092
Total distribution	**$ 3,153,489**	**$ 3,468,055**

WHEAT POOL

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)	**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 (Note 15)	(18,740)	(1.57)	(8,683)	(0.65)
Other grain purchases (Note 16)	11,488	0.96	10,800	0.81
Other direct expenses (Note 17)	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 (Note 18)	96,404	8.05	110,338	8.29
Net interest earnings	25,578	2.14	39,211	2.95
Administrative expenses (Note 19)	(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

	2006 Total	2006 Per tonne	2005 Total	2005 Per tonne
STATEMENT OF DISTRIBUTION				
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**

DURUM POOL

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 (Note 15)	(1,980)	(0.47)	(10,361)	(2.71)
Other grain purchases (Note 16)	14,717	3.42	10,596	2.77
Other direct expenses (Note 17)	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 (Note 18)	21,620	5.02	16,187	4.23
Net interest earnings	5,622	1.31	7,576	1.97
Administrative expenses (Note 19)	(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 Total	2006 Per tonne	2005 Total	2005 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**

DESIGNATED BARLEY POOL

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 (Note 15)	(189)	(0.13)	196	0.11
Other grain purchases (Note 16)	6,208	4.24	2,458	1.40
Other direct expenses (Note 17)	(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 (Note 18)	30,834	21.05	35,095	20.02
Net interest earnings	1,331	0.91	1,848	1.05
Administrative expenses (Note 19)	(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

	2006 Total	2006 Per tonne	2005 Total	2005 Per tonne
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**

FEED BARLEY POOL A

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 (Note 15)	235	0.26	23	0.79
Other grain purchases (Note 16)	2,300	2.51	1,552	53.46
Other direct expenses (Note 17)	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 (Note 18)	291	0.32	602	20.76
Net interest earnings	2,256	2.46	2,483	85.55
Administrative expenses (Note 19)	(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**

* 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)	**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 (Note 14)	–	–	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**

FEED BARLEY POOL B

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 (Note 15)	16	0.13	7	0.02
Other grain purchases (Note 16)	1,111	8.72	197	0.42
Other direct expenses (Note 17)	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 (Note 18)	125	0.98	1,219	2.59
Net interest earnings	1,351	10.60	2,266	4.83
Administrative expenses (Note 19)	(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

	2006 Total	2006 Per tonne	2005 Total	2005 Per tonne
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 (Note 14)	789	6.19	794	1.69
Total distribution	**$ 17,517**	**$ 137.43**	**$ 61,874**	**$ 132.00**

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 (Note 19)	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 (Note 19)	400	–
	1,728	809
Net surplus (deficit) on program operations	**$ (111)**	**$ 2,520**
Transfer to pool participants (Note 18)	**–**	**(7,354)**
TOTAL WHEAT PROGRAMS (Note 14)	**$ (6,958)**	**$ 26,943**

STATEMENT OF PRODUCER PAYMENT OPTIONS PROGRAM OPERATIONS

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 (Note 19)		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 (Note 19)		149		–
		431		139
Net surplus on program operations	**$**	**149**	**$**	**263**
Transfer to pool participants (Note 18)		**–**		**(60)**
TOTAL DURUM PROGRAMS (Note 14)	**$**	**116**	**$**	**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 (Note 19)		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 (Note 19)		109		–
		209		9
Net surplus on program operations	**$**	**121**	**$**	**219**
Transfer to pool participants (Note 18)		**–**		**(47)**
TOTAL DESIGNATED BARLEY PROGRAMS (Note 14)	**$**	**140**	**$**	**172**

STATEMENT OF PRODUCER PAYMENT OPTIONS PROGRAM OPERATIONS

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 (Note 19)		289		–
		371		2
Net surplus on program operations	**$**	**136**	**$**	**85**
TOTAL BARLEY POOL A PROGRAMS (Note 14)	**$**	**138**	**$**	**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 (Note 19)		37		–
		236		15
Net surplus (deficit) on program operations	**$**	**(163)**	**$**	**182**
Transfer to pool participants (Note 18)		**–**		**(39)**
TOTAL BARLEY POOL B PROGRAMS (Note 14)	**$**	**(162)**	**$**	**143**

STATEMENT OF CASH FLOW

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2006	2005
Increases (decreases) of cash during the year		
Cash flow from operating activities		
Pool earnings for distribution	$ 3,153,489	$ 3,468,055
Producer Payment Options program operations	(9,577)	12,104
Pre-delivery Top-up program	35	4
Interest earned on non-program Contingency fund balance	1,601	315
Add non-cash items		
Depreciation on CWB hopper cars	2,654	2,634
Depreciation on other capital assets	9,104	10,239
System development write down	2,436	–
Cash flow from operating activities before changes in working capital	3,159,742	3,493,351
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	(109,931)	(2,602)
Inventory of grain	44,002	44,116
Deferred and prepaid expenses	(67,414)	(30,095)
Accounts payable and accrued expenses	(9,729)	6,780
Liability to agents	(127,174)	(33,918)
Liability to producers for outstanding cheques	962	5,583
Provision for producer payment expenses	526	(500)
Special account	(1,092)	(180)
	2,889,892	3,482,535
Cash flow from financing activities		
Decrease in borrowings	(818,211)	(1,331,607)
	(818,211)	(1,331,607)
Cash flow from investing and other activities		
Accounts receivable – Credit programs	1,178,414	1,384,158
Purchase of capital assets	(39,485)	(9,305)
Proceeds from sale of capital assets	1,252	209
	1,140,181	1,375,062
Cash distributions		
Prior year undistributed earnings	(386,651)	(462,321)
Current year distributions prior to July 31	(2,701,304)	(2,817,244)
Non-pool Producer Payment Option program payments	(123,907)	(246,425)
	(3,211,862)	(3,525,990)
Net increase in cash and cash equivalents	–	–
Net cash position at beginning of year	–	–
Net cash position at end of year	**$ –**	**$ –**

STATEMENT OF ADMINISTRATIVE EXPENSES

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	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 (Note 19)	**$ 71,928**	**$ 69,990**

NOTES TO FINANCIAL STATEMENTS

(dollars in thousands)

1. Act of incorporation and mandate

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

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

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

2. Summary of significant accounting policies

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

Results of operations

The financial statements at July 31 include the final operating results for all pool accounts and programs for the crop year ended July 31, where marketing operations have been completed thereafter. In determining the financial results for such pools and programs, the accounts of the Corporation at July 31 include:

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

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

Direct operating expenses and income subsequent to July 31 – A provision is made for direct operating expenses and income occurring subsequent to July 31 relating to the marketing of grain inventories on hand at July 31. The amounts, which primarily relate to inventory storage, inventory financing and grain movement, are accrued to the appropriate operating statement account and are reflected in the Balance sheet as Accounts payable and accrued liabilities.

Allowances for losses on accounts receivable

Accounts receivable from credit programs – The Government of Canada guarantees the repayment of the principal and interest of all receivables resulting from sales made under the Credit Grain Sales Program (CGSP) and a declining percentage, based on the repayment term of the credit, of all receivables resulting from sales made under the Agri-food Credit Facility (ACF). The Corporation assumes the risk not covered by the Government of Canada. For receivables resulting from credit sales made outside of the CGSP and the ACF, the Corporation may enter into arrangements with commercial banks, which will assume the credit risk without recourse.

Accounts receivable from non-credit sales – Shipments are made pursuant to the receipt of appropriate letters of credit issued by commercial banks that guarantee the receipt of funds by the Corporation.

Accounts receivable from advance payment programs – The Government of Canada guarantees the repayment of the principal amount due from producers resulting from cash advances made under the *Agricultural Marketing Programs Act (AMPA)*, the Spring Credit Advance Program (SCAP), the Enhanced Spring Credit Advance Program (ESCAP), and the Unharvested Threshed Grain Advance Program.

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

Capital assets and depreciation

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

Asset class	Term (years)
Computer equipment	1 to 6
Computer systems development	2 to 10
Automobiles	3
Building and office improvements	3
Office furniture and equipment	10
Hopper cars (post-August 2005)	15
Hopper cars (pre-August 2005)	30
Building	40
Leasehold improvements	Term of lease

Translation of foreign currencies

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the balance-sheet date. Exchange adjustments arising from the translation of foreign currency denominated assets or liabilities are recognized in the period in which they occur, as a component of revenue. Borrowings in currencies other than Canadian or U.S. dollars are hedged by cross-currency interest-rate swaps and currency swaps and are converted into Canadian or U.S. dollars at the rates provided therein. The Corporation hedges U.S. dollar assets and liabilities on a portfolio basis, primarily by matching U.S. dollar assets to U.S. dollar liabilities.

Sales contracts denominated in foreign currencies are hedged by foreign-exchange forward contracts. Forward-exchange contracts are translated into Canadian dollars at the rates provided therein. These amounts are recorded in revenue as an adjustment to the underlying sales transactions.

Other income and expenses are translated at the daily exchange rates in effect during the year.

The net foreign-exchange gains included in operations for the year ended July 31, 2006 are $26,423 (2005 – $4,151).

Derivative financial and commodity instruments

The Corporation uses various types of derivatives, such as swaps, forwards, futures and option contracts, in order to manage its exposure to currency, interest-rate and commodity price risks. These instruments are designated as hedges and are used for risk-management purposes. These derivative contracts are initiated within the guidelines of the Corporation's risk-management and hedging policies, which provide for limited discretionary trading within the policy's trading limits. The Corporation formally documents its risk-management objectives and strategies for undertaking the hedging transaction and the relationship between the hedged item and derivative. The Corporation assesses, both at inception of the hedge and on a quarterly basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

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

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

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

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

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

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

Net interest earnings

Net interest earnings include interest revenue and expenses related to accounts receivable and borrowings, bank charges, transaction and program fees on borrowing facilities and interest earned on each pool account during the pool period and until final distribution of earnings to producers.

Employee future benefits

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

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

The Corporation sponsors three defined-benefit pension plans and one defined-contribution plan. The defined-benefit components provide pensions based on years of service and average earnings prior to retirement. The defined-contribution component provides pensions based on contributions made and investment earnings. Employer contributions to the CWB Pension Plan are expensed during the year in which the services are rendered.

Other post-employment benefits – The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets, over the periods in which the employees render services in return for the benefits. The Corporation has adopted the following policies:

- The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit cost method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health-care costs. Post-employment benefits include health care, life insurance, long-service allowance, unused sick leave accumulated prior to 1988 and unused vacation accumulated prior to 1996.
- The transitional obligation and actuarial gains (losses) are being amortized over the Average Remaining Service Period (ARSP), which has been actuarially determined to be 13 years (2005 – 12 years).
- Amortization of actuarial gains (losses) will be recognized in the period in which, as of the beginning of the period, the net actuarial gains (losses) are more than 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets.

Recent accounting pronouncements

The CICA issued Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; and Section 3865, Hedges. Under the new standards, a new location for recognizing certain gains and losses – other comprehensive income – has been introduced, providing an ability for certain gains and losses arising from changes in fair value to be temporarily recorded outside the income statement, but in a transparent manner. All financial instruments, including derivatives, are to be included on a company's Balance sheet and measured in most cases at their fair values; and existing requirements for hedge accounting are extended. This guidance will apply to the Corporation's annual financial statements beginning with fiscal year of August 1, 2007. The Corporation is in the process of evaluating the impact of these recently-issued standards on its financial statements.

3. Accounts receivable from credit sales programs

	Credit Grain Sales Program	Agri-food Credit Facility	**2006 Total**	2005 Total
Due from foreign customers				
Current	$ –	$ 81,092	**$ 81,092**	$ 49,887
Rescheduled	2,643,547	–	**2,643,547**	3,853,730
	2,643,547	81,092	**2,724,639**	3,903,617
Due from Government of Canada	23,891	–	**23,891**	23,327
	$ 2,667,438	$ 81,092	**$ 2,748,530**	$ 3,926,944
Credit risk				
Guaranteed by Government of Canada	$ 2,667,438	$ 79,470	**$ 2,746,908**	$ 3,925,946
Assumed by CWB	–	1,622	**1,622**	998
	$ 2,667,438	$ 81,092	**$ 2,748,530**	$ 3,926,944

Accounts receivable balances are classified under the following applicable credit programs:

Credit Grain Sales Program

Accounts receivable under this program arise from sales to Egypt, Haiti, Iraq, Jamaica, Pakistan, Peru, Poland and Russia. Of the $2,643,547 principal and accrued interest due from foreign customers at July 31, 2006, $1,839,794 represents the Canadian equivalent of $1,625,834, repayable in U.S. funds. Of the $3,853,730 principal and accrued interest due from customers at July 31, 2005, $2,801,215 represents the Canadian equivalent of $2,288,388, repayable in U.S. funds.

Peru prepaid $4,472 of its debt during August 2005, which represents the Canadian equivalent of $3,743 repayable in U.S. funds and was nearly 45 per cent of its debt outstanding. In addition, Brazil prepaid all its remaining outstanding debt of $30,021 in February 2006, including interest receivable, and Algeria prepaid all its total remaining outstanding debt of $98,773 in June 2006, including interest receivable, which represents the Canadian equivalent of $88,514 repayable in U.S. funds.

Subsequent to July 31, 2006, Russia prepaid all of its remaining debt. On August 21, 2006, $928,836 was received, which represents the Canadian equivalent of $826,882 repayable in U.S. funds.

Through a forum known as the Paris Club, the Government of Canada and other creditors have periodically agreed to extend repayment terms beyond the original maturity dates or to reduce the principal owed by a debtor country for a variety of reasons, including humanitarian concerns. All members of the Paris Club are obligated to grant the debtor country the same treatment. Under terms agreed to by the Government of Canada at the Paris Club, the Corporation has entered into agreements to reschedule certain receivables beyond their original maturity dates for Egypt, Haiti, Iraq, Jamaica, Pakistan, Peru and Poland. The terms for these reschedulings vary, calling for payment of interest and rescheduled principal for periods ranging from five to 25 years.

Under the terms of the rescheduled agreement for Iraq, the Government of Canada paid $212,559 of Iraq's debt on its behalf in September 2005, which represents the Canadian equivalent of $179,800 repayable in U.S. funds. A further payment of $212,397 was received from the Government of Canada in December 2005, which represents the Canadian equivalent of $182,487 repayable in U.S. funds. Another payment of $132,749 is due on December 31, 2008, which represents the Canadian equivalent of $117,311 repayable in U.S. funds. In total, the Government of Canada will pay 80 per cent of the total debt rescheduled. The balance of the debt is due from Iraq.

In addition to debt rescheduling by means of extending repayment terms, the Government of Canada has agreed to reduce the debt owed to the Corporation by Poland. Under these debt reduction arrangements, amounts that otherwise would have been paid by the debtor government are paid to the Corporation by the Government of Canada. A total of $23,891 was due from the Government of Canada as at July 31, 2006 under these debt reduction agreements. Of this amount, $10,995 represents the Canadian equivalent of $9,716 that will be repayable in U.S. funds.

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

Agri-food Credit Facility

Accounts receivable under this facility arise from sales to customers in Brazil, Indonesia, Mexico and Peru. The July 31, 2006 balance of $81,092 (principal and accrued interest) due under the Agri-Food Credit Facility (ACF) represents the Canadian equivalent of $71,661 repayable in U.S. funds. The July 31, 2005 balance of $49,887 (principal and accrued interest) represents the Canadian equivalent of $40,754 repayable in U.S. funds.

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

Fair value

All accounts receivable resulting from sales made under credit programs as at July 31, 2006 have contractual interest-rate repricing dates under 365 days. As a result of the short terms to the repricing dates of these financial instruments, fair value approximates the carrying values.

Maturities

These accounts receivable mature as follows:

	2006	2005
Amounts due:		
Within 1 year	**$ 1,440,683**	$ 1,042,007
From 1 – 2 years	**430,248**	509,025
From 2 – 3 years	**653,314**	533,056
From 3 – 4 years	**7,377**	770,889
From 4 – 5 years	**12,709**	106,624
Over 5 years	**204,199**	965,343
Overdue	**–**	–
	$ 2,748,530	$ 3,926,944

4. Accounts receivable from advance payment programs

	Agricultural Marketing Programs Act	*Prairie Grain Advance Payments Act*	Spring Credit Advance Program	Enhanced Spring Credit Advance Program	Unharvested Grain Advance Program	**2006 Total**	2005 Total
Due from producers	$ 140,159	$ –	$ 3,317	$ 288,364	$ 2	**$ 431,842**	$ 317,539
Due from (to) Government of Canada	1,288	(1)	(115)	2,422	(7)	**3,587**	530
Due from (to) agents of the CWB	18,037	–	(203)	(5,194)	–	**12,640**	15,725
	$ 159,484	$ (1)	$ 2,999	$ 285,592	$ (5)	**$ 448,069**	$ 333,794

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

The Government of Canada introduced the *Agricultural Marketing Programs Act (AMPA)* in 1997 to provide producers with cash flow by advancing money for grain stored on the farm. This program replaced a previous Government of Canada program under the *Prairie Grain Advance Payments Act (PGAPA).* The Government of Canada pays interest on advances of up to $50 and the producer pays interest on any amounts in excess of $50.

The Government of Canada introduced the Spring Credit Cash Advance Program (SCAP) in the spring of 2000 to assist producers with spring seeding costs. The program enables producers to receive up to $50 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to the producer in the fall under the *AMPA*. This program was replaced by the Enhanced Spring Credit Cash Advance Program (ESCAP) introduced in June 2006. Any balances outstanding up to and including 2005-06 SCAP advances remain in SCAP.

The Government of Canada introduced the ESCAP in June 2006 to increase the assistance available to producers with spring seeding costs. The program enables producers to receive up to $100 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to the producer in the fall under the AMPA. The ESCAP replaced the previous SCAP and any issued 2006-07 advances under SCAP were rolled into ESCAP.

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

Cash advances issued during the year by the Corporation under these programs totalled $823,462, including $530,813 issued under the *AMPA* and $292,649 issued under the ESCAP and SCAP.

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

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

5. Inventory of grain

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

	2006		2005	
	Tonnes	**Amount**	Tonnes	Amount
Wheat	2 414 178	**$ 502,605**	2 752 083	$ 492,078
Durum	1 180 223	**235,580**	1 315 303	261,581
Designated barley	165 414	**28,650**	231 103	44,654
Barley	112 428	**16,316**	208 805	28,840
	3 872 243	**$ 783,151**	4 507 294	$ 827,153

6. Deferred and prepaid expenses

	2006	2005
Net results of hedging activities applicable to subsequent pool accounts	**$ 18,606**	$ 1,504
Prepaid cost of moving inventory to eastern export position	**25,557**	16,344
Deposits on commodity margin accounts	**51,822**	15,854
Purchase and lease-renewal options on leased hopper cars	**–**	3,369
Deferred pension asset	**9,122**	1,671
Other	**2,494**	1,445
	$ 107,601	$ 40,187

7. Capital assets

		2006			2005	
	Cost	**Accum. deprec.**	**Net book value**	Cost	Accum. deprec.	Net book value
Computer systems development	**$ 74,353**	**$ 46,281**	**$ 28,072**	$ 68,137	$ 39,659	$ 28,478
Hopper cars	**106,544**	**72,110**	**34,434**	82,768	70,353	12,415
Computer equipment	**18,643**	**14,162**	**4,481**	17,592	13,642	3,950
Furniture and equipment	**5,457**	**4,180**	**1,277**	5,312	3,986	1,326
Land, building and improvements	**10,815**	**7,945**	**2,870**	8,987	7,844	1,143
Automobiles	**748**	**183**	**565**	561	214	347
Leasehold improvements	**158**	**158**	**–**	158	158	–
	$ 216,718	**$ 145,019**	**$ 71,699**	$ 183,515	$ 135,856	$ 47,659

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,556. Of these, 217 cars have been wrecked and dismantled, leaving 1,783 in the fleet. The Corporation purchased an additional 1,663 cars, previously under lease, in 2005-06 at a cost of $25,828. Of these, one car has been wrecked and dismantled, leaving 1,662 in the fleet. The Corporation is reimbursed for destroyed cars under operating agreements with the Canadian National Railway and the Canadian Pacific Railway.

8. Borrowings

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

Short-term borrowings consist of commercial paper issued by the Corporation in the Canadian, U.S. and Euro markets, bank loans and medium-term notes with remaining maturities of less than one year. The Corporation uses swaps in the same notional amounts and with the same terms as the underlying borrowings to convert the currency exposure to either the Canadian dollar or the U.S. dollar.

Long-term borrowings are notes issued in the Domestic and Euro Medium-term Note market with an original term to maturity between one and 15 years. The majority of the Corporation's long-term notes are structured securities where interest is calculated based on certain index, formula or market references and are redeemable by the Corporation before maturity, due to embedded call features. The Corporation uses swap contracts to mitigate currency risk and manage interest-rate risk associated with long-term borrowings. These contracts ultimately create a floating rate obligation similar to that of the Corporation's short-term borrowings and ensure that the Corporation will receive proceeds from the swap to offset currency and interest-rate fluctuations on the notes' principal and interest payments.

	Effective interest rate (%)	**2006**	2005
Short-term borrowings	3.84 – 5.55	**$ 2,686,161**	$ 3,320,681
Long-term borrowings	4.43 – 5.32	**1,582,061**	1,662,298
Accrued interest	–	**37,818**	27,068
Total borrowings	3.84 – 5.55	**4,306,040**	5,010,047
Less temporary investments	4.25 – 5.29	**(973,723)**	(859,519)
Net borrowings	3.84 – 5.55	**$ 3,332,317**	$ 4,150,528

Of the net borrowings at July 31, 2006, $1,972,648 represents the Canadian equivalent of $1,743,238 that will be repayable in U.S. funds. Of the net borrowings at July 31, 2005, $2,864,270 represents the Canadian equivalent of $2,340,006, repayable in U.S. funds.

These borrowings mature as follows:

	2006	2005
Amounts due:		
within 1 year	**$ 2,723,979**	$ 3,347,748
from 1 – 2 years	**39,606**	30,603
from 2 – 3 years	**22,632**	42,844
from 3 – 4 years	**173,861**	24,482
from 4 – 5 years	**124,476**	212,759
over 5 years	**1,221,486**	1,351,611
	$ 4,306,040	$ 5,010,047

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

9. Accounts payable and accrued expenses

	2006	2005
Accounts payable and accrued liabilities	**$ 131,541**	$ 148,789
Deferred sales revenue	**15,122**	7,602
	$ 146,663	$ 156,391

10. Liability to agents

		2006		2005
Grain purchased from producers	**$**	**347,293**	$	452,309
Deferred cash tickets		**34,128**		56,286
	$	**381,421**	$	508,595

Grain purchased from producers

Grain companies, acting in the capacity of agents of the Corporation, accept deliveries from producers at country elevators and pay the producers on behalf of the Corporation based on the initial payment rates that are in effect at the time. The Corporation does not make settlement for these purchases until the grain is delivered to the Corporation by the agents at terminal or mill position. The liability to agents for grain purchased from producers represents the amount payable by the Corporation to its agents for grain on hand at country elevator points and in transit at July 31, for which delivery to and settlement by the Corporation is to be completed subsequent to the year-end date.

Deferred cash tickets

Grain companies, acting in the capacity of agents of the Corporation, deposit in trust with the Corporation an amount equal to the value of deferred cash tickets issued to producers for Corporation grain. The Corporation returns these funds to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

11. Liability to producers – undistributed earnings

Undistributed earnings represent the earnings generated from the current pools, accrued at July 31, that have not yet been distributed to producers. Of the undistributed earnings, totalling $324,636 (2005 – $386,651), $75,953 (2005 – n.a.) was distributed to producers as an adjustment payment on August 9, 2006 and $138,350 (2005 – $183,706) will be distributed to producers in an interim payment pending Government approval. The balance of $110,333 (2005 – $202,944) will be distributed to producers through final payments.

12. Provision for producer payment expenses

The amount of $2,266 (2005 – $1,741) represents the balance of the reserve for producer payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account upon authorization of the Governor-in-Council.

13. Special Account – net balance of undistributed payment accounts

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

The activity in the Special Account is comprised of:

		2006		2005
Beginning of year	**$**	**3,880**	$	4,060
Transfer from payment accounts		**–**		657
Expenditures		**(1,090)**		(822)
Payments to producers against old payment accounts		**(2)**		(15)
End of year	**$**	**2,788**	$	3,880
Ending balance comprised of:				
Unexpended authorizations	**$**	**488**	$	714
Not designated for expenditure		**2,300**		3,166
	$	**2,788**	$	3,880

During the 2005-06 crop year, a request for an Order-in-Council (OIC) was submitted to transfer balances from wheat, durum and designated barley. As of July 31, 2006, this OIC had not yet been approved but was approved on November 2, 2006.

Program activity during the 2005-06 crop year is detailed as follows:

	Unexpended at beginning of year	Authorized	Expended	Unexpended at end of year
Market development program	$ 321	$ –	$ (159)	$ 162
Canadian International Grains Institute				
Capital expenditures	207	–	(117)	90
University of Alberta				
Agri-Food Discovery Place	–	500	(400)	100
Scholarship program	36	364	(388)	12
Variety Identification Project (VIP)	150	–	(26)	124
	$ 714	$ 864	$ (1,090)	$ 488

14. Contingency fund

The Canadian Wheat Board Act provides for the establishment of a contingency fund. The Contingency fund can be populated through a variety of mechanisms, including the results of operations of the PPO program, or other sources of revenue received in the course of operations. *The Contingency Fund Regulation* provides that the balance of the fund cannot exceed $50 million. During the 2005-06 crop year, the Minister approved an increase in the limit to $60 million through an OIC. 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 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

15. Inventory adjustments

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

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

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

16. Other grain purchases

Other grain purchases are primarily made up of late receipts, inventory overages and inventory shortages. Late receipts arise from producers' deliveries subsequent to the previous pool period close. Overages and shortages occur when the Corporation's agents' inventory records differ from those of the Corporation. Acquired overages and late receipts are recorded as an expense to the pool, with the pool benefiting to the extent that the ultimate sales proceeds of this grain exceed its cost. Shortages must be settled by the Corporation's agents at export price so that the pool is not negatively impacted by the disappearance of recorded stocks.

17. Other direct expenses

Other direct expenses is primarily made up of program expenses, agents' commissions, fees for inspection and testing of grain, Corporation-owned and leased hopper cars and demurrage.

18. Other income

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

As discussed in Note 14, the Minister increased the Contingency fund limit to $60 million through an OIC approval. With the increased limit, no portion of excess PPO program surpluses was distributed to participants of the pool accounts. In 2004-05, $7,500 was included in Other income.

19. Administrative expenses

	2006	2005
Allocated as follows:		
Wheat pool	**$ 44,625**	$ 47,508
Durum pool	**16,062**	13,663
Designated barley pool	**5,460**	6,262
Barley pool A	**3,222**	104
Barley pool B	**475**	1,675
Total to pools	**69,844**	69,212
PPO programs	**1,717**	299
Producer payment accounts	**367**	479
Administrative expenses	**$ 71,928**	$ 69,990

Administrative expenses, less the expenses attributable to the distribution of final payments and the costs related to the PPO program, are allocated to each pool on the basis of relative tonnage. A change was made to the method used to allocate costs to the PPO to more accurately reflect the costs incurred to run the programs.

20. Commitments

Hopper car leases

The Corporation administered leases for grain hopper cars for the Government of Canada with lease terms of 25 years, which expired in 2006. Of the 1,750 cars leased under the original agreements, 87 have been wrecked and dismantled, leaving 1,663 cars in this fleet. All lease costs to the end of the original lease periods are recoverable from the Government of Canada and not charged to the pool accounts. Total payments associated with these leases for the year ended July 31, 2006 were $8,464 (2005 – $13,518).

Upon expiration of these leases in 2006, the Corporation purchased the fleet of 1,663 hopper cars at a cost of $22,516, which represents the Canadian equivalent of $17,314 in U.S. funds. Purchase dates were between December 30, 2005 and July 2, 2006.

Between 1991 and 1995, the Corporation purchased options to acquire 1,550 of the original 1,750 leased hopper cars. The options, at a cost of $3,312, which were recorded in Deferred and prepaid expenses, are now capitalized as part of the 1,663 hopper car acquisition cost.

Operating leases

The Corporation has entered into operating leases for premises and office equipment. Lease terms are for periods ranging from one to six years, expiring between April 2007 and March 2012. The Corporation has the option to renew most of these leases for additional terms ranging from one to three years. Total lease payments for premises and office equipment expensed in the year ended July 31, 2006 were $667 (2005 – $747).

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

	Premises and office equipment (Cdn$)
2007	475
2008	154
2009	76
2010	50
After 2010	14

Capital leases

The Corporation has transitioned its vehicles from company-owned to capital-lease arrangements. The first set of vehicles was transitioned August 1, 2005, with the last vehicle being transitioned by June 2007. These capital leases are accounted for in 2005-06 as an acquisition of an asset (net of accumulated amortization) and an assumption of an obligation. The vehicles under the capital lease will be amortized on a straight-line basis over their economic lives. Estimated future payments on vehicles leased to March 21, 2009 are:

	Vehicles (Cdn$)
2006-07	145
2007-08	74
2008-09	11

Other

The Corporation has agreed to fund the operations of the Canadian International Grains Institute (CIGI) for a base amount of $1,985 annually, through to 2008.

21. Derivative financial and commodity instruments

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

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

These financial instruments qualify for hedge accounting and are not recognized in the Balance sheet. As at July 31, 2006 the total notional amount of these financial instruments, all having maturity or rate reset dates within one year, is as follows:

	2006			2005		
	Notional amounts	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest-rate contracts						
Single-currency interest-rate swaps	**$ 929,168**	**$ (8,193)**	**$ 10,032**	$ 645,779	$ 2,718	$ 9,815
Cross-currency interest-rate swaps	**698,158**	**(71,974)**	**31,361**	1,075,779	(13,698)	32,757
	1,627,326	**(80,167)**	**41,393**	1,721,558	(10,980)	42,572
Foreign-exchange contracts						
Forwards	**1,604,746**	**(4,893)**	**14,609**	1,046,171	9,106	14,091
Currency swaps	**178,938**	**1,359**	**1,359**	157,014	(502)	1,756
	1,783,684	**(3,534)**	**15,968**	1,203,185	8,604	15,847
	$ 3,411,010	**$ (83,701)**	**$ 57,361**	$ 2,924,743	$ (2,376)	$ 58,419

As of the statement date, all foreign-exchange contracts mature within one year. The interest-rate contracts with maturities between less than one year, one and five years and beyond five years had notional amounts outstanding of $45,264, $360,575 and $1,221,487 respectively. The swap contracts rates ranged between 3.84 per cent and 5.55 per cent.

The net fair value of interest rate and foreign-exchange contracts refers to the estimated net present value of expected future cash flows based on current market rates. These values have been derived using various methodologies including net present value analysis and quoted market prices, where available. These estimates of fair value are affected by the assumptions used and, as such, should not be interpreted as realizable values in an immediate settlement of the instruments.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligations to the Corporation. The Corporation is only exposed to credit risk on contracts with a positive fair value. The credit-risk exposure is managed by contracting only with financial institutions having a credit rating that complies with the financial risk-management policies approved by the Corporation's board of directors. Master-netting agreements are used to reduce credit risk from potential counterparty default. The largest notional amount contracted with any institution as at July 31, 2006 was $1,006,220 (2005 – $938,262) and the largest credit risk with any institution as at July 31, 2006 was $16,415 (2005 – $14,921).

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

22. Employee future benefits

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

Total cash payments

Total cash payments for Employee future benefits, consisting of cash contributed by the Corporation to its defined-benefit and defined-contribution plans, plus cash payments made directly to employee and beneficiaries and third-party service providers for the benefit plans, were $6,378 (2005 – $4,388).

Pension plans

The Corporation's pension expense for the year ended July 31, 2006 was $5,116 (2005 – $2,968).

An actuarial valuation of the Corporation's pension plan is required annually for the first three years of existence. The most recent actuarial valuation was completed as of July 31, 2005. The Corporation is not able to disclose the full pension obligation or plan assets for the year ended July 31, 2006 as required by GAAP, because the actuarial valuation is not complete, pending completion of the pension-transfer asset value. The Corporation's employees have finalized their transfer decisions and documentation is currently in progress to facilitate the final transfer.

Defined-benefit pension plan assets:

These tables include the defined-benefit components of the Corporation's pension plans, but exclude the pension-transfer value from the *PSSA* plan and the actuarially determined 2004-05 solvency deficit of $7,452, which was paid as at September 15, 2006.

Change in fair value

		2006		2005
Balance, beginning of year	$	**9,700**	$	5,314
Actual return on plan assets		**695**		802
Employer contributions		**5,065**		5,065
Employee contributions		**1,027**		1,110
Benefits and expenses		**(1,820)**		(2,591)
Balance, end of year	**$**	**14,667**	$	9,700

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

Asset category	2006	2005
Equity securities	**58%**	59%
Debt securities	**36%**	32%
Other	**6%**	9%
Total	**100%**	100%

Defined-contribution plan

The Corporation expensed $50 (2005 – $38) to the defined-contribution component of the Corporation's pension plan. Employees contributed $230 (2005 – $186) to the defined-contribution component of the Corporation's pension plan as at July 31, 2006. Benefits paid from the defined-contribution component were $60 (2005 – $17).

Other post-employment benefits

The Corporation measures its accrued benefit obligations for accounting purposes as at July 31, 2006. The most recent actuarial valuation was completed as of July 31, 2006 with the next required valuation as of July 31, 2009.

The Corporation amended its other post-employment benefits effective August 1, 2006. The impact of this amendment was a plan-design gain that has been recognized in the July 31, 2006 actuarial valuation.

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

Reconciliation of accrued benefit obligation:

		2006		2005
Accrued benefit obligation, beginning of year	$	**31,487**	$	26,858
Employee contributions		**–**		–
Benefits paid		**(1,262)**		(1,420)
Current service cost		**529**		904
Interest cost		**1,422**		1,655
Curtailment*		**–**		682
Curtailment recognized		**–**		(682)
Curtailment gain		**–**		(583)
Plan design (reduction) improvement**		**(4,285)**		–
Actuarial (gain) loss		**(2,961)**		4,073
Accrued benefit obligation, end of year	**$**	**24,930**	$	31,487

** In 2005-06, the accrued benefit obligation was reduced by $4,285 as a result of a gain from a plan design change. The gain will be amortized over 10 years and netted against the transitional obligation as required by GAAP.

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

	2006	2005
Fair value of plan assets	$ –	$ –
Accrued benefit obligation	24,930	31,487
Funded status – plan deficit	(24,930)	(31,487)
Unamortized net actuarial loss	7,020	10,586
Unamortized transitional obligation	2,876	7,481
Accrued benefit liability, end of year	$ (15,034)	$ (13,420)

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

	2006	2005
Accrued benefit liability, beginning of year	$ (13,420)	$ (10,445)
Current service cost	(529)	(904)
Interest cost	(1,422)	(1,655)
Benefits paid	1,262	1,420
Amortization of transitional obligation	(320)	(748)
Amortization of net actuarial loss	(605)	(406)
Curtailment*	–	(682)
Accrued benefit liability, end of year	$ (15,034)	$ (13,420)

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

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

	2006	2005
Current service cost	$ 529	$ 904
Interest cost	1,422	1,655
Amortization of transitional obligation	320	748
Amortization of actuarial loss	605	406
Curtailment	–	682
Actuarial loss	7,020	10,586
Net cost (before adjustments)	9,896	14,981
Adjustments – actuarial loss	(7,020)	(10,586)
Total expense included in Administrative expenses	$ 2,876	$ 4,395

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

	2006	2005
Discount rate	5.50%	5.25%
Rate of compensation increase	3.00%	4.00%
Medical cost trend rate	10.00%	10.00%
Medical cost trend rate declines to	5.00%	5.00%
Medical cost trend rate declines over	5 years	5 years
Dental cost trend rate	3.00%	3.00%

Sensitivity analysis:

Assumed medical/dental cost trend rates have a significant effect on the amounts reported. A one percentage-point change in assumed rates would have the following effects for 2006:

		Increase	Decrease
Accrued benefit obligation	$	2,619	($ 2,110)
Current service and interest cost	$	226	($ 178)

23. Contingent liability

On September 13, 2002 the North Dakota Wheat Commission (NDWC) and the U.S. Durum Growers Association filed anti-dumping (AD) and countervailing duty (CVD) petitions against imports of Canadian hard red spring wheat (HRS) and durum. On October 3, 2003, the U.S. International Trade Commission (ITC) dismissed the durum petition by a 4-0 vote. However, with respect to HRS, the ITC ruled 2-2 that Canadian HRS imports caused injury to U.S. HRS producers. As a result, AD and CVD tariffs totalling 14.15 per cent ad valorem were in place pending the completion of certain appeals launched by the CWB. The appeals, taken under the North American Free Trade Agreement (NAFTA) with subsequent remands to the appropriate U.S. administrative agency, were ultimately successful. The CVD tariff was reduced from 5.29 per cent to 2.54 per cent. Most significantly, however, on October 5, 2005 the ITC voted 4-1 that Canadian HRS imports did not injure U.S. producers. On October 12, 2005 the NDWC filed a challenge of the ITC's ruling with the NAFTA Secretariat. On December 12, 2005 the NAFTA panel ruled that Canadian HRS would no longer be subject to U.S. import duties effective January 2, 2006.

24. Comparative figures

Certain of the prior year's figures have been restated to conform to the current year's presentation and to reflect a consistent application of expenses for all grains. Specifically, 2004-05 producer contract storage payments of $9,608 were reclassified from the Statement of distribution to inventory storage expense on the Statement of operations. As well, the prior year rebate on producer cars of $102 was reclassified from the Statement of distribution to Other direct expenses on the Statement of operations, and from Undistributed earnings to Accounts payable and accrued expenses on the Balance sheet.

GLOSSARY OF FINANCIAL TERMS

Cross-currency interest-rate swap – a contractual agreement for specified parties to exchange principal, fixed and floating interest-rate payments in different currencies. Notional amounts upon which the interest-rate payments are based are not exchanged.

Currency swap – a contractual agreement for specified parties to exchange the cash flow of one currency for a fixed cash flow of another currency.

Derivative financial instrument – a contract or security that obtains much of its value from price movements in a related or underlying security, future or other instrument or index.

Fair value – an estimate of the amount of consideration that would be agreed upon between two arm's-length parties to buy or sell a financial instrument at a point in time.

Foreign exchange forward – an agreement to buy and sell currency simultaneously purchased in the spot market and sold in the forward market, or vice versa.

Futures contract or futures – a future commitment to purchase or deliver a commodity or financial instrument on a specified future date at a specified price. The futures contract is an obligation between the Corporation and the organized exchange upon which the contract is traded.

Hedge – a risk-management technique used to decrease the risk of adverse commodity price, interest-rate or foreign-exchange movements by establishing offsetting or risk-mitigating positions intended to reduce or minimize the Corporation's exposure.

Liquidity – having sufficient funds available to meet corporate obligations in a timely manner.

Notional amounts – a reference amount upon which payments for derivative financial instruments are based.

Option – a contract that grants the right, but not the obligation, to buy or sell a commodity or financial instrument at a specified price at a specified point in time during a specified period.

Risk management – the application of financial analysis and diverse financial instruments to the control and, typically, the reduction of selected types of risk.

Single-currency interest-rate swap – a contractual agreement for specified parties to exchange fixed interest-rate payments for floating interest rate payments based on a notional value in a single currency. Notional amounts upon which the interest-rate payments are based are not exchanged.

Swap – a contractual agreement to exchange a stream of periodic payments with a counterparty.