WE’RE EVOLVING

2005-06 ANNUAL REPORT

CWB
The Canadian Wheat Board

VISION

Canadian farmers innovatively leading the way in the global grain market.

MISSION

Creating a sustainable competitive advantage for farmers and customers through our unique business structure, innovative marketing, superior service, profitable investments and effective partnerships.

CONTENTS

CORPORATE PROFILE

The CWB markets western Canadian wheat, durum wheat and barley in Canada and throughout the world.

All sales revenue, less marketing costs, is returned to farmers. The CWB is controlled by a board of directors that is comprised of 10 farmer-elected members and five federal government appointees. As a key international grain trader and a major earner of foreign exchange, the CWB and Prairie wheat and barley producers compete successfully with other major players in the grain industry.

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**

A MESSAGE FROM THE CHAIR OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

Nov. 15, 2006

Ask farmers and they'll tell you that farming today bears little resemblance to farming 70 years ago. In the early part of the century, horses pulled ploughs and weeds were picked by hand. Farmer-controlled grain companies dominated the Prairie landscape. Today, global positioning systems navigate tractors and combines, while precision sprayers filled with plant-specific herbicides take care of the weeds. The farmer grain co-ops are gone, leaving a grain-handling industry increasingly dominated by multinational players.

If there has been one constant, it's the CWB's mandate to maximize returns for western Canadian farmers. But, as farmers' marketing partner, we've changed too.

From governance changes designed to place control of the CWB firmly in the hands of farmers, to the introduction of Producer Payment Options (PPOs) designed to give farmers more marketing flexibility, each milestone carries its own significance and helps paint a picture of how the CWB has evolved over the years.

left: Ken Ritter; right: Adrian Measner

A major turning point for the organization occurred in 1998, when control of the CWB passed from a board of government-appointed commissioners to a modern, corporate board of directors. The CWB shed its status as a federal agent of the Crown and emerged as a commercial marketing corporation. Today, it is governed by a 15-member board of directors, comprised of 10 farmers elected by their peers, four members appointed by the federal government and a CEO chosen collaboratively by the board and government.

CHANGING THE GOVERNANCE ENSURED THAT FARMERS HAVE THE ULTIMATE SAY ON THE POLICIES AND STRATEGIC DIRECTION OF THEIR GRAIN-MARKETING AGENT.

It wasn't long before farmers demonstrated how having their voices heard at the board table could affect the business. Shortly after the first democratically elected farmer directors took office, the CWB introduced PPOs. These pricing options were designed to provide more flexibility over how and when farmers get paid for their grain. The PPOs were designed to mimic the open market environment, while keeping the proven benefits of the single desk and price pools intact.

Both the PPOs and governance changes were significant, but an organization needs to constantly evolve to remain healthy, competitive and responsive. It was with this thinking in mind that the board of directors began to ponder the longer-term future of the CWB. After consulting with farm leaders and the business community's best minds on how to construct a CWB ready to meet the future, the board released its vision for the future: *Harvesting Opportunity*.

This vision focuses on empowering farmers to prosper in the global marketplace by enhancing the single desk and creating a new business model comprised of a modern grain-marketing corporation – independent of government – with a venture capital subsidiary to generate additional value for farmers through commercial investments.

The farmer-controlled board of directors developed the plan because it plays to our competitive strengths, creates farmer power in grain handling and transportation and provides a realistic platform for farmer investment in value-added opportunities.

Why choose to build on the single desk? Because it gives farmers the power to compete in an industry that is increasingly globalized and dominated by a handful of vertically integrated multinationals. It's why we can brand western Canadian wheat and barley as the best in the world and it's why customers pay a premium for that grain.

In short, the single desk is the key to our competitive advantage. Study after study has shown it adds millions of dollars to the bottom lines of western Canadian farmers. As such, it also had to be the cornerstone of any sound business plan that sought to enhance the position of western Canadian farmers as leaders in the global grain market.

But we're being challenged on this vision. At the time of writing this message to you, the federal Conservative government is manoeuvring to follow through on a campaign promise to end single-desk selling for western Canadian wheat and barley.

While farmers may be divided about whether that is the best course for their future, the vast majority are united in one belief: farmers – and farmers alone – should have the final say over any changes to the way their grain is marketed.

A key principle of empowerment is the ability to have a say over your own destiny. That's why the CWB has chosen a plan that puts farmers in full control. Our vision builds on what farmers have told us in surveys, meetings and through the election of their directors – they want an innovative marketing agency that leverages the single desk, has an expanded role in value-added and aggressively brands western Canadian wheat and barley as the best in the world. *Harvesting Opportunity* is about listening to what farmers are saying and providing them with the tools they need to thrive and prosper.

It's about a partnership built on a solid foundation – one that enables farmers to move with confidence into the future.

Ken Ritter
Chair, board of directors

Adrian Measner
President and Chief Executive Officer

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.

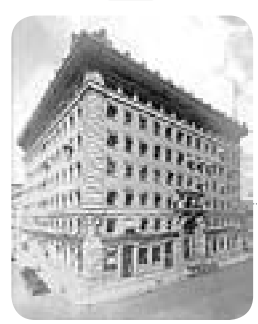
1961 • The CWB makes its first long-term sales agreement with China.
• The CWB opens an office in Tokyo, Japan, to better serve this important market.

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.

1935



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

1949

1961

1972

1975

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.

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.

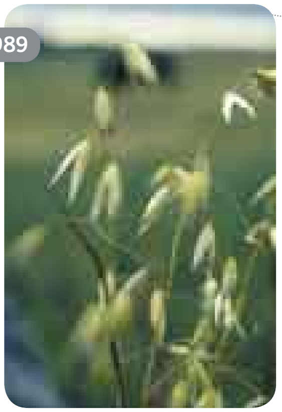
1994 • The CWB opens an office in Beijing, China.

1995 • The first shipment of "Warburtons" wheat, grown under the CWB's Identity Preserved Contract Program (IPCP), sails from Thunder Bay.

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.

1989



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."

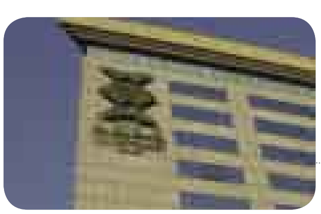
Klemenz says the CWB plays a key role in the success of short line and producer car groups like RCRR – not only because of its role in administering the cars, but also because it is an advocate for western Canadian farmers.

"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."

1994



1995

Warburtons

1997

1997

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.

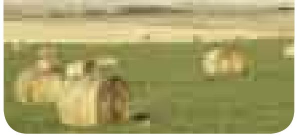
Today, the land that four generations of Tebbs have caringly cultivated for more than 87 years has new value. It's become a lucrative commodity – not for its ability to grow the crops that feed the population, but because it can feed a city's insatiable need for expansion.

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.

1998



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."

1999

1999

2000

2000

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.

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.

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.

2001

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."

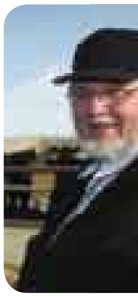
These days, managing the farm means closely checking commodity prices and taking advantage of the PPOs when it makes sense. The Basis Price Contract (BPC) has helped the colony manage cash flow at these critical times, while the Fixed Price Contract (FPC) has helped them cash in on market rallies.

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."



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.

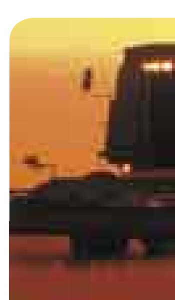
But Ritter – a farmer-elected director for the CWB – has been immersed in that world since he was elected to the CWB's board of directors in 1998. Between U.S. trade challenges and World Trade Organization (WTO) negotiations, rarely a day has passed – even during the busy times of seeding and harvesting – 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.

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.

2005



"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.

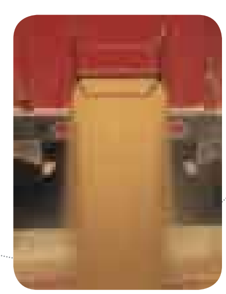
Having western Canadian farmers like Ritter on the CWB's board ensures that the determination to fight won't fizzle on this side of the border. Too much is at stake.

"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

2006

2006



2006

CORPORATE GOVERNANCE

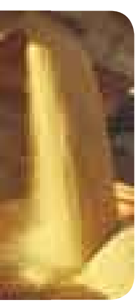
The following section reviews the CWB's performance highlights, farmer-controlled board of directors, committee structure and leadership team.

CWB PERFORMANCE HIGHLIGHTS

The CWB's performance is measured in terms of its achievements in four distinct areas: farmer, customer, mandate and corporate.

FARMER

Strategic Goal: To serve farmers' business needs while significantly increasing farmer support for and trust in the CWB.



Initiatives

- Implement a corporate-wide relationship management approach for farmers
- *Harvesting Opportunity*

Achievements

- Measured farmer support for the CWB through the annual farmer survey. Seventy-six per cent of western Canadian farmers say that they support the CWB. The CWB's 2005-06 target was 77 per cent.
- Enhanced Producer Payment Options (PPOs) by providing farmers with the ability to lock in a futures price a full year before harvest, introducing an "Act of God" option that would release farmers from contracts if substantial production loss occurred from unforeseen events beyond their control, and introducing a Basis Price Contract (BPC) program for malting barley.
- Developed a pilot delivery exchange program that allows farmers greater flexibility and control over the timing of their deliveries by allowing them to exchange their delivery periods with other farmers. The pilot program will be implemented in 2006-07.
- Measured the CWB's performance in offering products and services that meet farmers' business needs, through a specialized survey. Results were used to calculate the "Farmer Satisfaction Index" (FSI). The FSI result for 2005-06 was 63.4, slightly under the CWB's target of 65.
- Developed *Harvesting Opportunity*, a comprehensive vision for the future of the organization. The plan leverages the single desk to maintain a strong Canadian brand, generate market premiums and champion farmers' interests throughout the supply chain.

Development...

Implement...

Clarity...

CUSTOMER

Strategic Goal: To attract, develop and retain markets by delivering quality products and service to customers worldwide.

Initiatives

- Clarify farmers' views on value-added processing and develop strategies accordingly
- Investigate/develop a concept paper and business plan(s) for the CWB to market other Prairie crops
- Develop and implement a corporate branding strategy
- Continue development and implementation of long-term barley marketing strategies
- Enhance customer relationship management in marketing
- Develop a formalized long-term logistics and supply strategy
- Advance a variety development and distribution strategy
- Improve the wheat quality control system

Achievements

- Completed an extensive consultation with farmers regarding the CWB's role in value-added activities in Western Canada and initiated a strategy review to ensure that the CWB's policies encourage and foster value-added investment.
- Investigated the possibility of marketing canola at the request of the Manitoba Canola Growers Association and other groups. The CWB remains open to this possibility and will proceed, subject to farmers receiving approval from government, to market canola through the CWB.
- Announced a pilot program to market organic Prairie wheat in partnership with organic farmer groups. Participating farmers will be offered the opportunity to market through the CWB for a pooled return and organic premiums.

CUSTOMER (CONTINUED)

Strategic Goal: To attract, develop and retain markets by delivering quality products and service to customers worldwide.

Achievements

- Consulted with farmers and customers on the development of a corporate branding strategy aimed at increasing customer and consumer recognition of, and demand for, the high-quality wheat, durum and barley produced by farmers in Western Canada.
- Announced joint plans for a training and technical centre in Beijing in partnership with the China Cereals Oilseeds and Foodstuffs Corporation (COFCO). The technical centre will capitalize on growing demand for premium-quality, wheat-based foods in China.
- Initiated the payment of protein premiums for farmers who deliver two-row malting barley to participating elevators and maltsters.
- Developed an innovative tool alongside industry partners to measure, and therefore better manage, fundamental quality attributes of malting barley – namely germination loss – during storage.
- Initiated a technical mission to China in partnership with the Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC) in order to pursue opportunities for western Canadian malt barley in this rapidly expanding market.
- Launched a Basis Price Contract (BPC) for malting barley customers that is tied to the western barley futures contract on the Winnipeg Commodity Exchange. This program gives maltsters an added option for pricing with domestic brewers.

Partnerships...

Service...

Excellence...

- Developed a database to store and track information about CWB customer preferences and demands, in order to increase efficiency and effectiveness in meeting sales demands and ultimately maximize returns for farmers.
- Measured the CWB's effectiveness in serving its customers by tracking technical and operational complaints related to the products and services of the CWB. Complaints totalled .07 per cent of sales; less than half of the CWB's annual target of .15 per cent.
- Incorporated the results of the 2004-05 customer satisfaction survey into the CWB's customer relationship management strategy. The survey results are used to formulate a customer satisfaction index, which for 2004-05 was 79.99. A survey was not conducted in the 2005-06 crop year.
- Launched a comprehensive, multi-year logistics and supply strategy that will transform the CWB's supply chain by increasing its reliability, improving its support technology and ultimately, improving farmers' returns through better management of costs.
- Investigated the possibility of direct variety ownership by the CWB or, alternatively, the formation of strategic alliances with partners in the seed industry to ensure farmers have access to promising, publicly available wheat, durum and barley varieties.
- Worked with industry to develop an interim grain-testing protocol for western Canadian wheat that incorporates falling number (FN).
- Met with Canadian Grain Commission (CGC) and industry partners to develop comprehensive new grading standards that would include FN.
- Continued funding for research on variety identification technology that would support a strong quality-control segregation system.
- Worked with the CGC to establish a wheat quality-assurance system as the industry moves towards a reduced reliance on kernel visual distinguishability (KVD).
- Participated in a grain industry program led by the Canada Grains Council to develop and pilot test an on-farm food safety assurance program. The program received Canadian Food Inspection Agency (CFIA) approval and the results of the pilot-test will be used to further develop the on-farm food safety assurance program. Also developed a plan for grain safety emergencies in conjunction with the CGC.

MANDATE

Strategic Goal: To strengthen the long-term CWB mandate at home and its support/acceptability in international trade.

Initiatives

- Strengthen the CWB's trade position in international agreements

Achievements

- Employed a comprehensive advocacy strategy that included meetings with World Trade Organization (WTO) member countries to build support for the CWB's objectives in reaching a comprehensive agreement on agriculture at the WTO.
- Established alliances with a consortium of Canadian agri-food exporters who lobbied the federal government to pursue bilateral trade agreements in key markets.

CORPORATE

Strategic Goal: To achieve excellence in the provision of human resources, financial operations, information technology and other corporate programs and services that support or advance the CWB.

Initiatives

- Develop best practice disciplines that enable the CWB to deliver against the long-term plan
- Implement a human resources strategy

Achievements

- Reviewed governance guidelines established for corporations in Bill 198 of the Ontario Securities Commission in order to assess the cost-effectiveness and full implications of partial or full adoption of these guidelines.
- Measured the satisfaction of CWB employees by tracking voluntary turnover rates. The percentage of staff that left the CWB voluntarily in 2005-06 was 5.8 per cent, slightly above the five-per-cent target, but below industry average.
- Formulated a comprehensive human resources strategy based partially on the results of the 2004-05 employee survey. The survey results are also used to create an employee satisfaction index, which was 3 for 2004-05 – just below the target range of 3.75 – 4.2. The next survey is scheduled for the 2006-07 crop year.
- Implemented a new salary structure and designed and approved a bonus program for staff. Also implemented a cost-share approach to current benefits and enhanced programs aimed at stimulating employee learning and career development.

FARMER-CONTROLLED BOARD OF DIRECTORS

Farmer-directors are elected by permit holders in 10 electoral districts across Western Canada.

The CWB operates as a shared-governance corporation under *The Canadian Wheat Board Act*. The board consists of 15 members, including 10 prominent farmers elected by their peers, four respected leaders from the business community appointed by the federal government, and the chief executive officer (CEO). In 1998, this unique board structure was created to better focus the CWB on farmers' needs, by placing control of the corporation directly into farmers' hands.

Farmer-directors are elected by producers in 10 electoral districts across Western Canada. To ensure continuity on the board, these directors have four-year terms and elections are held every two years, alternating between odd- and even-numbered districts.

Prior to the government's appointment of directors, the CWB advises the Minister for the Canadian Wheat Board about its future business requirements, to ensure appropriate appointments are made. Appointed directors hold three-year terms, and the CEO is appointed based on a recommendation from the board of directors.

1. Art Macklin (District 1)

Art, along with his wife and son, operates a 1,600-acre grain and cattle farm northeast of Grande Prairie, Alberta. Art is active in both church and community, is a past president of the National Farmers Union and served as chair of the former CWB Advisory Committee. He is the chair of the Canadian International Grains Institute.

2. James Chatenay (District 2)

Jim operates a family farm near Penhold, Alberta. He is a graduate of Olds Agricultural College and served six years as director of the Alberta Charolais Association.

3. Bill Toews (District 10)

Bill and his wife, Barbara, operate Harambee Farms, a grain and special crops farm at Kane, Manitoba. Bill has a degree in agriculture and a post-graduate degree in soil science. He has served as a director for Keystone Agricultural Producers, the Western Grains Research Foundation and the Manitoba Farm Products Marketing Council. Bill worked in Kenya and Pakistan with the Canadian International Development Agency. He is currently serving on the Manitoba Agri-Food Research and Development Council, as well as on a local credit union board.

4. Ken Ritter Chair (District 4)

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

5. William Nicholson (District 9)

Bill and his family operate a 4,800-acre grain farm near Shoal Lake, Manitoba. Bill has a degree in agricultural engineering and has worked in the farm machinery industry. In addition to serving on the former CWB Advisory Committee, Bill has been a Manitoba Pool delegate and represented farmers on the Prairie Agricultural Machinery Institute Council; he is currently president of his local credit union board. He has served as chair of the board's Strategic Issues Committee since 2003.

6. Rod Flaman (District 8)

Rod farms with his wife Jeanne just south of the Qu'Appelle Valley, near Edenwold, Saskatchewan. They produce a variety of field and horticultural crops, including certified organic grain. Rod was educated at the University of Saskatchewan, where he received a bachelor of science in mechanical engineering. He worked in the oil, power generation and manufacturing industries for 10 years before returning to the family farm. Rod has served as a director of the Saskatchewan Fruit Growers Association, the Regina Farmers Market and Terminal 22, a farmer-owned grain terminal at Balcarres, Saskatchewan.

7. William Cheuk (Appointed)

William is president of Vancouver-based Origin Organic Farms Inc. and Vision Envirotech International Ltd. He is also commissioner of the BC Vegetable Marketing Commission and president of the Chinese Federation of Commerce of Canada. He has led numerous trade missions to Asia and has experience with international trade dispute resolution. William has played a central role in the Environmental Farm Planning Program for sustainable development in agriculture. He has a bachelor of business administration degree, majoring in accounting, from Simon Fraser University, as well as bachelor and doctorate degrees in chemical and biological engineering from the University of British Columbia.

8. Allen Oberg (District 5)

Allen and his brother, John, run a grain and cattle operation near Forestburg, Alberta. Allen has served on the boards of numerous organizations throughout his career, including Alberta Wheat Pool, Agricore and the Canadian Cooperative Association.

9. Ian McCreary (District 6)

Ian was raised on the mixed farm near Bladworth, Saskatchewan that he operates today. He holds a master's degree in agricultural economics and has previously worked at the CWB as a marketing manager and policy analyst. Ian has served as chair of the Farmer Relations Committee for the past three years and previously chaired the Strategic Issues Committee. His international experience includes managing a pilot project on food aid and food markets for the Canadian Foodgrains Bank, which included nine projects through Asia, Africa and Latin America.

10. Dwayne Anderson (District 7)

Dwayne and his wife, Sheila, operate a 2,900-acre farm in the Fosston-Rose Valley area of Saskatchewan. He served 10 years as president and chief executive officer of North East Terminal Ltd., a farmer-owned inland grain terminal and crop input business. Dwayne was founding chair of the Inland Terminal Association of Canada and is currently serving as interim chair of the Saskatchewan Oat Development Commission. Dwayne has received accreditation as a Chartered Director by the Directors College.

11. Ross Keith (Appointed)[1]

Ross is president of the Nicor Group, a Regina-based real estate development company, and is a former partner in the Regina law firm of MacLean-Keith. He has degrees from the University of Saskatchewan in arts, commerce and law.

12. Adrian Measner (Appointed)[7]
President and Chief Executive Officer

Raised on a farm near Holdfast, Saskatchewan, Adrian was educated at the University of Saskatchewan. He has more than 30 years of experience in the grain industry and has held a variety of positions at the CWB. He was also previously involved in the operation of a small grain farm north of Winnipeg, Manitoba.

13. Larry Hill (District 3)

Larry farms 4,300 acres near Swift Current, Saskatchewan. He is a graduate of both agricultural engineering and farm business management at the University of Saskatchewan and has worked for Saskatchewan Agriculture. Since 2002, he has chaired the Audit, Finance and Risk Committee. He also serves as chair of the Ad Hoc Trade Committee.

14. Bonnie DuPont (Appointed)[2]

A group vice-president at Calgary's Enbridge Inc., Bonnie has expertise in energy transportation and grain handling, and has held senior positions with Alberta Wheat Pool and Saskatchewan Wheat Pool. Prior to entering the grain industry, Bonnie was employed by SaskPower. She continues to provide executive leadership at Enbridge in the areas of corporate governance and human resources management, as well as information technology and public and government affairs. She holds a bachelor's degree from the University of Regina, with majors in program administration and evaluation, and psychology; she also holds a master's degree in human resources management from the University of Calgary. She is a member of the Institute of Corporate Directors and has completed its Director Education Program. Bonnie served as chair of the Governance and Management Resources Committee since 2002 and owns a farm near Imperial, Saskatchewan.

15. Ken Motiuk (Appointed)[3]

Ken has extensive experience in agri-business and owns and operates grain and livestock operations near Mundare, Alberta. He holds a bachelor of science in agricultural economics from the University of Alberta. Ken currently serves as a director of the Alberta Credit Union Deposit Guarantee Corporation, a member of the Fiscal and Regulatory Committee of the Alberta Economic Development Authority and a member of the Institute of Corporate Directors.

Bruce Johnson (Appointed)[4]

Bruce has worked in the grain industry for more than 25 years. He has held senior positions in both privately held and cooperative grain companies and has served on several boards. Bruce has provided consulting services to a broad range of clients in transportation, food and agriculture and government. He holds a bachelor of arts degree from the University of Manitoba and currently resides in Regina.

Lynne Pearson (Appointed)[5]

Lynne Pearson is Dean Emerita of the College of Commerce at the University of Saskatchewan and past chair of the Canadian Standards Association. She has held senior positions with several public and private sector organizations and has served on numerous boards. Lynne holds bachelor's and master's degrees in arts and a bachelor's degree in journalism.

Glen Findlay (Appointed)[6]

Glen and his wife Kay, along with their family, operate a 5,000-acre, 300-head beef farm at Shoal Lake, Manitoba. Glen holds a bachelor's and a master's degree in animal nutrition from the University of Manitoba and a Ph.D. in nutritional biochemistry from the University of Illinois. He has served as a post-doctoral fellow at the National Research Council in Ottawa and as a professor in the Faculty of Agriculture at the University of Manitoba. He was a member of the Manitoba Legislative Assembly for 13 years, where he served as Minister of Agriculture, Minister of Highways and Transportation and Minister responsible for Telecommunications. While a minister, he was involved in numerous international trade missions. He also served as a member of *the Canadian Transportation Act* Review Panel and has been an Agricore United delegate. He has been active in several farm organizations and community sports.

Notes:

1 Ross Keith served on the board from December 31, 1998 to October 26, 2006.

2 Bonnie DuPont served on the board from July 31, 2001 to October 25, 2006.

3 Ken Motiuk was appointed to the board on September 15, 2006.

4 Bruce Johnson was appointed to the board on October 30, 2006. He is not pictured.

5 Lynne Pearson served on the board from June 18, 2003 to June 18, 2006. She is not pictured.

6 Glen Findlay was appointed to the board on November 27, 2006. He is not pictured.

7. Adrian Measner served on the board from December 31, 2002 to December 19, 2006. Greg Arason was appointed interim CEO on December 19, 2006.

MANDATE

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

This year, the board continued to provide strong strategic leadership, which culminated in the development of a comprehensive new vision for the CWB. This vision, called *Harvesting Opportunity*, will provide the necessary tools for the CWB to be a world-class competitor in marketing, handling and processing Canadian grain, while ensuring that farmers themselves stay in full control. *Harvesting Opportunity* is the result of more than a year of research and deliberation by the CWB board, with input from numerous external experts.

While engaged in the development of *Harvesting Opportunity*, the board continued to provide strategic direction over the business of the CWB. In addition to the annual business plan, the marketing, communications and government relations plans are board-approved vehicles that enable the directors to evaluate management's progress against set business objectives.

Highlights of the year include:

- Development of *Harvesting Opportunity*, a comprehensive strategy for the future.
- Approval of new corporate vision and mission statements.
- Further advocacy on trade to ensure CWB interests were fully represented at World Trade Organization (WTO) negotiations.
- Continued focus on accountability to farmers through district meetings and director presence at key industry events.
- Refinement of high-level corporate performance measures, to assist the board in its oversight role.
- Additional investment in research and education through a new technical centre in China, value-added processing research at the University of Alberta and Fusarium Head Blight research at the Brandon Research Centre.
- Development of a response to the CWB Election Review Panel recommendations.
- Approval of a variable-pay compensation system linked to the achievement of business goals.

Leading by example...

The board has taken a proactive approach to its corporate governance philosophy and framework, assuming best practice guidelines for its governance standards. With the exception of the president and CEO, all of the directors on the board are independent of management. The board has the following controls and policies in place to demonstrate the CWB's commitment to good governance.

1. An approved code of conduct and set of conflict-of-interest guidelines.
2. Annual conflict-of-interest declarations for all directors.
3. A list of significant policies developed and approved by the board that guide corporate conduct.
4. Candidate conflict-of-interest disclosure statements, which are required for prospective elected directors.
5. Regulations that require director candidates to undertake in writing that, if elected as directors, they will terminate any positions they hold as directors, employees or officers of a grain company or as an employee or officer of, or as a professional consultant to, the CWB, a grain company, the Government of Canada or a province.
6. Up-to-date terms of reference for the board of directors, which establish the mandate and responsibilities of the board.
7. Up-to-date terms of reference that describe the duties of the chair of the board, the CEO, each committee and individual directors.
8. A comprehensive orientation program, which is provided for each new director.
9. Continuing professional development opportunities for directors, which are provided at the Directors College and through ongoing board education sessions and financial literacy modules.
10. A process to determine the competencies and skills the board should have and identify any gaps therein.
11. Regular evaluations of the board's effectiveness, as well as the effectiveness and contribution of each board committee and each individual director. The use of peer assessments was introduced in 2005-06.
12. A succession plan that is monitored by the board to ensure that the directors are satisfied that a pool of talent is available and being developed to fill key senior management positions.
13. An in-camera session that is held at each board meeting without management present.
14. An in-camera session that is held at each audit committee meeting with the head of Corporate Audit Services.
15. A policy stating that the CEO is not eligible to be chair of the board.
16. A policy that allows directors to engage the services of an outside advisor, with the authorization of the chair of the board.
17. Internal controls that have been assessed and continue to be monitored to ensure integrity and accountability. As part of strategic planning, the board annually reviews and supplements an integrated risk-management summary that identifies and measures external risks and opportunities.

Responsibility...

Strategy...

Direction...

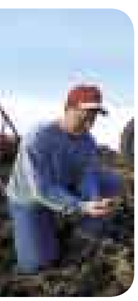
COMMITTEE STRUCTURE

To assist in fulfilling its governance role and responsibilities, the board of directors has established four standing committees. In 2005-06, there was also an Ad Hoc Trade Committee, reflecting the significance of international trade issues during this time. The board chair is an ex-officio, non-voting member of all board committees. The president and CEO is an ex-officio, non-voting member of all board committees except Audit, Finance and Risk.

Audit, Finance and Risk Committee

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

Members – Larry Hill (chair), Dwayne Anderson, William Cheuk, Bonnie DuPont[2], Bruce Johnson[3], Ian McCreary and Ken Motiuk[1].



1 Ken Motiuk was appointed to the committees on September 28, 2006

2 Bonnie Dupont left the board October 25, 2006.

3 Bruce Johnson was appointed to the committees on November 23, 2006.

4 Ross Keith left the board October 26, 2006.

Relationships...

Management...

Performance...

Governance and Management Resources Committee

Mandate – Focuses on governance to enhance board and organizational effectiveness. It also assists the board in fulfilling its obligations related to human resources and compensation matters.

Members – Bonnie DuPont[2] (chair), Dwayne Anderson, James Chatenay, William Cheuk, Rod Flaman, Bruce Johnson[3], Ken Motiuk[1] and Bill Nicholson.

Strategic Issues Committee

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

Members – Bill Nicholson (chair), James Chatenay, Rod Flaman, Ross Keith[4], Art Macklin, Allen Oberg and Bill Toews.

Farmer Relations Committee

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

Members – Ian McCreary (chair), Larry Hill, Ross Keith[4], Art Macklin, Allen Oberg and Bill Toews.

Ad Hoc Trade Committee

Mandate – Reviews and recommends strategies on trade-related issues that could affect the CWB's ability to fulfil its mandate.

Members – Larry Hill (chair), Rod Flaman, Ross Keith[4], Art Macklin, Ian McCreary and Bill Nicholson.

COMPENSATION TABLE AND MEETINGS ATTENDED, 2005-06 CROP YEAR

Board of directors

		Remuneration			Attendance		
Director	District	Retainer	Per diems	Total	Board meetings	Committee meetings	Industry/ miscellaneous meetings
Macklin, Arthur	1	$ 20,000	$ 44,950	$ 64,950	10/10	20/20	50
Chatenay, James	2	20,000	24,250	44,250	10/10	16/16	14
Hill, Larry	3	28,000	49,350	77,350	10/10	21/23	43
Ritter, Ken	4	60,000	45,350	105,350	10/10	23/23	40
Oberg, Allen	5	20,000	30,750	50,750	9/10	19/19	22
McCreary, Ian	6	24,000	28,500	52,500	10/10	22/23	39
Anderson, Dwayne	7	20,000	28,500	48,500	10/10	14/14	20
Flaman, Rod	8	20,000	41,250	61,250	9/10	17/19	39
Nicholson, William	9	24,000	29,950	53,950	10/10	20/20	37
Toews, William	10	20,000	34,500	54,500	10/10	16/16	49
Cheuk, William	A	20,000	12,500	32,500	10/10	14/17	3
DuPont, Bonnie	A	24,000	10,250	34,250	10/10	17/19	5
Keith, Ross	A	20,000	23,000	43,000	10/10	18/22	10
Measner, Adrian	A	N/A	N/A	N/A	9/10	N/A	N/A
Pearson, Lynne	A	18,333	10,000	28,333	9/9	17/19	3
Total:		**$ 338,333**	**$ 413,100**	**$ 751,433**			

Notes:

A = Appointed

Directors are paid an annual retainer and per diem allowances. The board chair receives an annual retainer of $60,000. All other members receive $20,000, with committee chairs receiving a further $4,000 per committee chaired. A per diem of $500 per full regular meeting day is paid to each member. Directors are reimbursed for all reasonable out-of-pocket and travel expenses. They are also entitled to a maximum of $5,000 per crop year to assist them in communicating with farmers. The annual remuneration limit is $60,000 for directors and $100,000 for the board chair. During 2005-06, the board approved compensation in excess of the limit for Ken Ritter, Larry Hill and Art Macklin for additional duties undertaken in relation to trade, mandate and other issues. (Rod Flaman also received compensation in excess of the limit due to the timing of payments.) Directors do not participate in any corporate pension plan or any corporate benefit plan, with the exception of travel accident and travel medical insurance.

DIRECTOR REPRESENTATION ON EXTERNAL BOARDS AND COMMITTEES 2005-06 CROP YEAR

The board of directors is invited to name representatives to serve on external boards and committees related to the Canadian grain industry. The following is a list of directors assigned during the 2005-06 crop year.

External board or committee	Position	Director
Agricuture and Agri-Food Canada Cereal Grains Value Chain Roundtable	CWB board representative	Rod Flaman
Canada Grains Council	Board member	Adrian Measner
Canada Grains Council On-Farm Food Safety Committee	CWB board representative	Allen Oberg
Canadian Federation of Agriculture	CWB board representative	Larry Hill
Canadian International Grains Institute	Board member Board member	Arthur Macklin Adrian Measner
Malt Barley Industry Group	CWB board representative	Dwayne Anderson
National Forum on Seeds	CWB board representative	Arthur Macklin
Western Grain Standards Committee	Member, wheat subcommittee Member, barley subcommittee	Rod Flaman William Nicholson
Western Grains Research Foundation	Member, barley advisory committee Member, wheat advisory committee Board member	James Chatenay William Toews Allen Oberg

CWB LEADERSHIP TEAM

Early in the 2005-06 crop year, the president and CEO announced a restructuring of senior management. The result was the reduction of three vice-president-level positions and the establishment of a leadership team. Prior to the restructuring, senior management included an executive team and vice-presidents, or equivalent positions, and numbered 16. The reorganization increased the number of direct reports to the president from five to eight, and ensured that all critical strategic functions reported at the most senior level in the organization.

The leadership team is focused on driving the achievement of the CWB's strategic direction. In conjunction with key management, the leadership team supports the board of directors in establishing the CWB's vision, mission and strategic initiatives. The leadership team and management provide leadership to, and are accountable for, the successful implementation of the annual and long-term plans of the organization.

In March 2006, one member of the leadership team resigned. This has resulted in the redefinition of the vacant position and a decision to reduce the leadership team from eight to seven.

The salaries and benefits provided below are for the eight positions for 2005-06. The 2004-05 column reflects compensation for 16 positions.

Leadership team compensation

	2005-06 Actual	2004-05 Actual
Salaries	$ 1,254,490	$ 2,608,635
Benefits	470,137	1,015,783
Total	**$ 1,724,627**	$ 3,624,418

The leadership team is compensated in accordance with policies approved by the board of directors. In keeping with the *CWB Information Policy* and in a desire to be open with and accountable to farmers, the following table sets forth the annual compensation earned by the president and chief executive officer, as well as the four other highest-paid senior officers for the year ended July 31, 2006.

Summary compensation table, 2005-06

	Annual compensation	
	Salary[1]	All other compensation[2]
Adrian Measner – President and Chief Executive Officer	$ 286,166	–
Ward Weisensel – Chief Operating Officer	226,663	–
Brita Chell – Chief Financial Officer	179,422	–
Graham Paul – Chief Information Officer	166,068	–
Deanna Allen – Vice-President, Farmer Relations and Public Affairs	157,949	–

Notes:

1 Reflects salary earned as of July 31, 2006.

2 The CWB has no additional compensation plans beyond base salary. The value of perquisites for each senior officer did not exceed the lesser of $50,000 or 10 per cent of total annual salary.

Leadership Team

Adrian Measner
President and CEO[1]

Ward Weisensel
Chief Operating Officer

Brita Chell
Chief Financial Officer

Deanna Allen
Vice-President, Farmer Relations and Public Affairs

Laurel Repski
Vice-President, Human Resources

Graham Paul
Chief Information Officer

Margaret Redmond
Chief Strategic Officer and Head of Corporate Services[2]

Vice-President, Planning and Business Development[3]

Notes:

1. Adrian Measner served on the board from December 31, 2002 to December 19, 2006.
Greg Arason was appointed interim CEO on December 19, 2006.

2. Margaret Redmond left the CWB in March 2006.

3. The vice-president, planning and business development is currently vacant; the recruitment process is under way.

Pictured from left to right: Graham Paul, Adrian Measner, Deanna Allen, Brita Chell, Laurel Repski and Ward Weisensel.

MANAGEMENT DISCUSSION AND ANALYSIS

RESPONSIBILITY

The following discussion and analysis (MD&A) is the responsibility of management as of November 23, 2006. The board of directors carries out its responsibility for the review of this disclosure, principally through its Audit, Finance and Risk (AFR) Committee. The AFR Committee reviews the disclosure and recommends its approval by the board of directors.

Contents

OUR BUSINESS

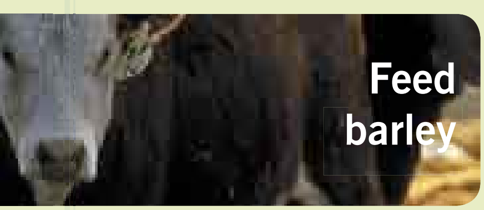
Controlled by western Canadian farmers, we are the largest single-source wheat and barley marketer in the world. As one of Canada's biggest exporters, we sell grain to more than 70 countries and return all sales revenue, less the costs of marketing, to Prairie farmers.

Products

Western Canadian wheat is marketed to customers in more than 70 countries worldwide and enjoys an international reputation for consistency, reliability of supply and quality. Flour made from wheat is the main ingredient in many staple foods consumed around the world, including pan breads, flat breads, steam breads, some noodles, and other products such as crackers.

We market quality durum wheat grown by western Canadian farmers to more than 40 countries around the world. When durum is milled, semolina is produced. Semolina is primarily used in pasta and couscous, which is a staple dish in North Africa.

About 65 per cent of Western Canada's barley acres are seeded to malting varieties. About 25 to 30 per cent meets the strict quality-control standards set for malting, or designated barley selection. The majority of the quality barley is used to make malt for beer, both domestically and internationally. Much smaller quantities are used for whiskey distilling, confectionary and in baked products.



Feed barley from Western Canada is mainly consumed by the domestic hog and cattle industry or, with added enzymes, by the poultry industry. It is the central ingredient used by western Canadian feedlots to produce quality Canadian beef. About 95 per cent of feed barley is consumed domestically. Barley grown for livestock feed or industrial uses (like ethanol) does not have to be sold through the CWB. Feed barley may be sown specifically for animal consumption or consist of unselected malting varieties.

OPERATIONAL ENVIRONMENT

The vast majority of grain grown in Canada comes from farmers living and working on the Prairies. We market approximately 18 to 24 million tonnes of western Canadian wheat, durum and barley on behalf of Prairie farmers each year. It is sold to a multitude of customers in more than 70 countries worldwide. Annual revenue from these sales is between $3 billion to $5 billion, with all sales revenue, less marketing costs, returned directly to farmers.

Global competition

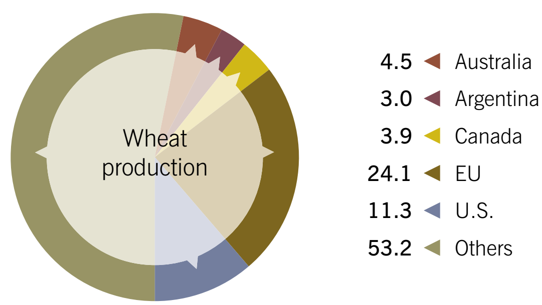
The global market for wheat, durum and barley is highly competitive. For more than 70 years, we have sustained and built our market presence through branding, reputation and customer service. As a result, we have become the largest wheat and barley marketer in the world. However, all competitors are seeking ways to sustain and expand their share of the global market, particularly in premium markets.

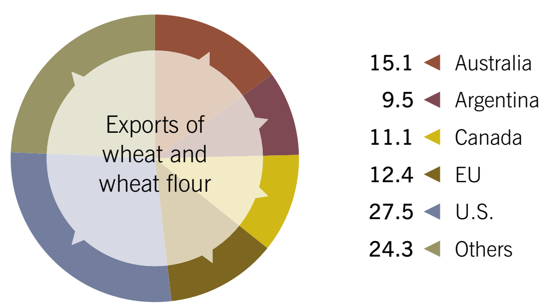
Each year, we market between 12 and 14 million tonnes of milling wheat to customers in Canada and around the world. Our major international customers vary from year to year and include China, Japan, Sri Lanka and Indonesia. The U.S. has also traditionally been a key market for Canadian milling wheat.

Together, Canada, Argentina, Australia, the European Union (EU) and the U.S. account for approximately 75 per cent of the total wheat traded worldwide, while producing less than 50 per cent of the world supply. The disparity intensifies an already competitive marketplace and has the potential to exert pressure on Canada's market share – especially as traditionally "minor" exporting countries (such as Russia, Kazakhstan and Ukraine) increase their presence as wheat exporters (see Figure 1). Additional competitors with cost-of-production advantages, such as lower land and input prices, also continue to emerge and place downward pressure on wheat export prices.

Market shares of production and exports by principal wheat exporting regions – FIGURE 1

(% of world totals over 2001-06 time period)





EACH YEAR, WE MARKET BETWEEN 12 AND 14 MILLION TONNES OF MILLING WHEAT TO CUSTOMERS IN CANADA AND AROUND THE WORLD.

A similar condition exists in the durum market. The EU, Canada and the U.S. control approximately 76 per cent of the export market. Meanwhile, Canada holds a 50-per-cent share of the world durum market. However, these countries together produce less than 45 per cent of the world's durum supply, with Canada producing only 12 per cent. This imbalance intensifies the already competitive marketplace.

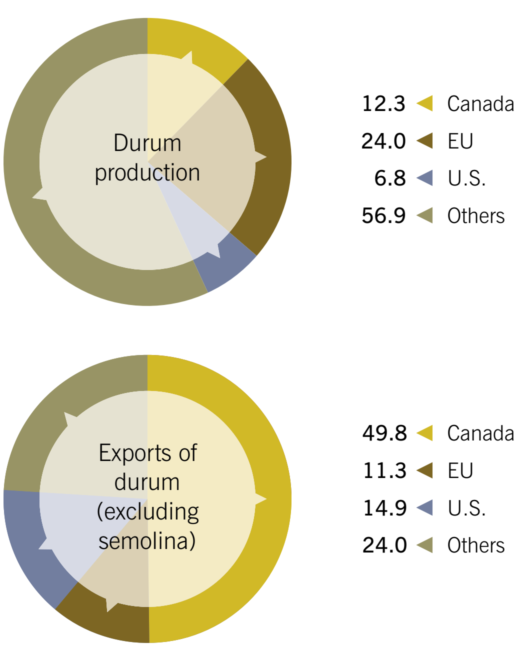
Global buyers value Canadian durum for its consistency, quality and ease of supply, which is ensured by our superior marketing and grain-handling systems. Italian pasta makers are among the top buyers of Canadian durum, while other valuable customers include North Africa (Algeria, Morocco, Tunisia), South America (Venezuela, Chile, Peru) and the United States. Canada's own domestic pasta industry purchases roughly 300 000 tonnes of durum a year and is usually among the top five buyers.

In the feed and malting barley export market, the main suppliers are Australia, Canada, the EU and the U.S., who together control approximately 57 per cent of exports. Australia dominates the barley market, capturing about 26 per cent of exports. The amount of barley produced in each country is roughly equal to export market share (see Figure 3).

Two-row malting varieties from Western Canada are used in the domestic brewing industry and are also sold to major malt and malting barley customers in the U.S., Asia, Central and South America and South Africa. Six-row malting varieties from Western Canada are predominantly marketed to the malting and brewing industry in Canada and the U.S., with smaller quantities sold to Mexico.

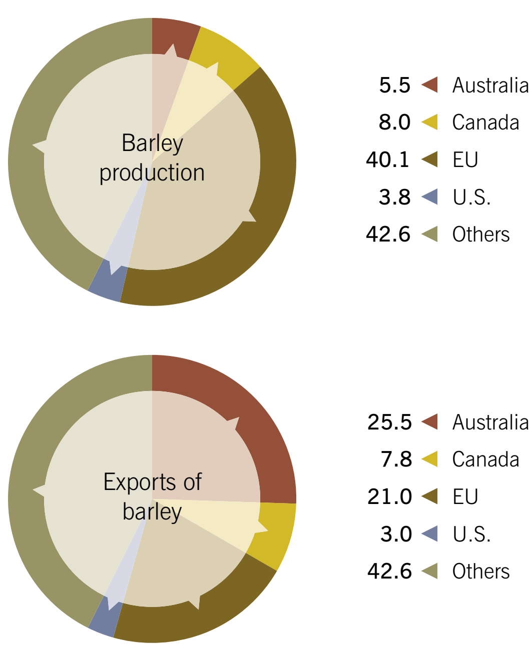
Market shares of production and exports by principal durum exporting regions – FIGURE 2

(% of world totals over 2001-06 time period)



Market shares of production and exports by principal barley exporting regions – FIGURE 3

(% of world totals over 2001-06 time period)



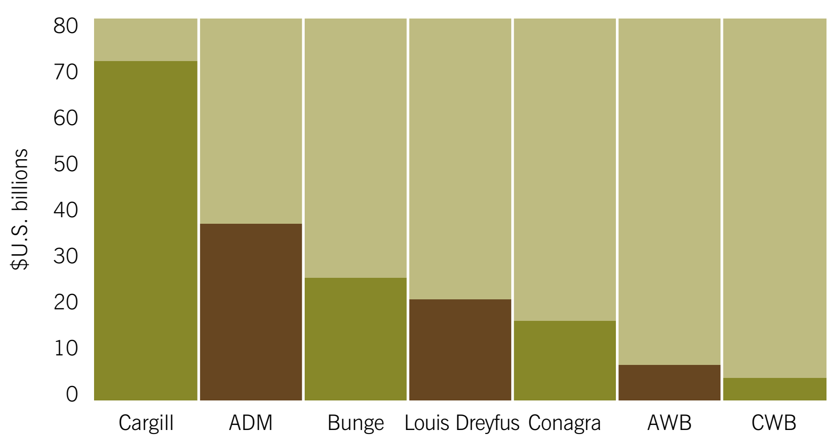
Corporate concentration

A handful of vertically-and horizontally-integrated multinationals effectively control the global grain trade. Four companies – Cargill, Louis Dreyfus, Archer Daniels Midland (ADM) and Bunge – control 73 per cent of the global market for grain. Several Canadian-based companies are closely linked to these companies and control many parts of the Canadian supply chain, including grain handling, feed and fertilizer production, feedlots, transportation, food processing and financial trading.

Subsidies

The international grain marketplace is distorted by the effects of subsidies paid to grain producers in other countries, particularly in the U.S. and the European Union. The extent of these domestic support programs insulates U.S. and EU producers from true global supply and demand factors, resulting in distorted production and prices. In contrast, western Canadian farmers receive only a fraction of the subsidies that farmers in competitor countries are paid.

Total revenue of CWB's global competitors (2005)



* Most recent data available: most for year-end within 2004. Sourced from public Web sites and annual reports. Represents gross revenue for Cargill, CWB and AWB; net revenue for ADM and Bunge. Louis Dreyfus figure represents an annual average.

A HANDFUL OF VERTICALLY- AND HORIZONTALLY-INTEGRATED MULTINATIONALS EFFECTIVELY CONTROL THE GLOBAL GRAIN TRADE.

Wheat support: a level playing field? – FIVE-YEAR AVERAGE, 2000-04

Source: OECD PSE database

BUSINESS STRUCTURE

We are a shared-governance corporation created by *The Canadian Wheat Board Act* (*the Act*). We are not a Crown corporation, nor do we have any shareholders. The board of directors consists of 15 members – 10 of whom are farmers elected by their peers; four are leaders from the business community and are appointed by the Government of Canada; the chief executive officer is recommended by the board of directors and appointed by the Government. Under the board of directors' terms of reference, all directors are required to act in the best interest of the corporation, in order to maximize returns to western Canadian producers.

Three pillars underpin the operations and structure of the CWB – the single desk, price pooling and government guarantees.

The single desk

Through legislation enacted in 1935, we are the lone marketing agent for wheat and barley grown in Western Canada. Our mandate covers both the export and human consumption markets. Wheat and barley grown for livestock feed or industrial uses (like ethanol) need not be sold through the CWB.

The single desk adds value for western Canadian farmers by enabling them to capitalize on Canada's reputation for grain quality, consistency, food safety, customer service and reliability. Western Canada's 75,000 wheat and barley farmers market as one through the CWB. Working together, instead of competing against one another for each sale, enables farmers to command a higher return for their grain and have clout on issues that impact their bottom lines.

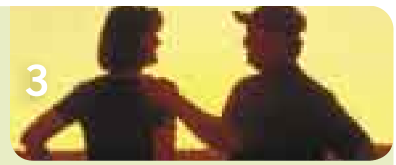
Under the single-desk model, farmers are empowered to compete in a global grain trade that is largely controlled by a handful of multinational corporations, and in a domestic grain-handling and transportation system dominated by two large grain companies and two national railways.

Price pooling

Price pooling means that all sales revenue earned during the crop year (August 1 to July 31) is deposited into one of the pool accounts: wheat, durum wheat, designated barley, feed barley A or feed barley B. The pooling system returns all revenues, less marketing costs, to farmers through these pool accounts. This ensures that all farmers delivering the same grade of wheat or barley receive the same returns at the end of the crop year, regardless of when their grain is sold during the crop year. It acts as a risk-management tool that allows farmers to share market risks by giving each farmer his or her fair share of the highs and lows of the marketplace.

Producer Direct Sale (PDS)

Farmers have the ability to sell directly to buyers through the PDS program in order to take advantage of niche- and premium-market opportunities. This program ensures that all western Canadian farmers retain the benefits of single-desk selling and earn their share of the single-desk premiums, while enjoying additional marketing opportunities.



Government guarantees

The CWB currently has financial guarantees on initial payments, borrowings and credit sales through the Government of Canada. Guaranteed initial payments provide a minimum price floor, giving farmers protection from the extreme volatility of grain markets. Guaranteed borrowings are used to finance payments to farmers before sales revenue is received, helping our farmers meet their operating costs. Credit guarantees allow us to compete in a marketplace with multinational companies who have access to similar or even more generous credit programs offered by their respective governments.

Beyond price pooling: Producer Payment Options

When farmers requested the opportunity to exercise greater individual control over pricing their wheat, durum and barley, as well as how and when they get paid, we introduced Producer Payment Options (PPOs). These options provide farmers with the ability to manage their own pricing risks without affecting pool accounts. PPOs mimic the open-market environment, while keeping the security and benefits of the single desk intact. Program costs are entirely covered by the farmers who use it.

The main payment options now available to farmers through the CWB (in addition to the traditional pooling system) are as follows:

Fixed Price Contract (FPC): Through the FPC, farmers are able to lock in a fixed and final price for their grain, based on a market value.

Basis Price Contract (BPC): The BPC enables farmers to lock in the pooled basis and futures at different times during the program.

Daily Price Contract (DPC): The DPC is also a fixed price contract, which allows farmers to lock in a price for their wheat that reflects U.S. market spot prices on the day they choose to sell their grain.

Early Payment Option (EPO): An EPO contract enables farmers to establish a floor price based on the Pool Return Outlook (PRO). The farmer can lock in at 80, 90 or 100 per cent of the PRO, each with a corresponding discount. This option also allows farmers to participate in price gains if pool returns exceed the EPO price.

Pre-delivery Top-up (PDT)

Western Canadian farmers are able to access cash advances from the Government of Canada through a variety of programs we administer on its behalf. The PDT program provides farmers with the opportunity for additional cash flow early in the crop year by providing an additional pre-delivery payment.

People

We have a diverse and highly skilled workforce that is crucial to our success. The organization's headquarters are in Winnipeg and satellite offices are located in Vancouver; Ottawa; Beijing, China; and Tokyo, Japan. We also operate regional offices in Saskatoon, Saskatchewan and Airdrie, Alberta, just north of Calgary.

The majority of the organization's 460 employees are based in Winnipeg. Sixteen Farm Business Representatives (FBRs) cover large districts across Western Canada and are responsible for serving the business needs of farmers and maintaining contact with the individual grain-handling facilities within their districts. They meet with farmers both individually and in groups, to provide regular updates on the CWB's programs. They also work with farmers on issues concerning delivery, contracts and payments.

PRODUCER PAYMENT OPTIONS (PPOs) PROVIDE FARMERS WITH THE ABILITY TO MANAGE THEIR OWN PRICING RISKS WITHOUT AFFECTING POOL ACCOUNTS.

OUR VISION AND STRATEGIES

The CWB is a marketing agency that belongs to Prairie farmers. It enables them to have a significant presence in the international marketplace. It does not insulate them from the realities of this marketplace, but it gives them the means to bring innovative solutions to the challenges they face.

Our strategy is to grow our competitive advantage in order to add value for farmers. We do this by leveraging the single desk, branding western Canadian wheat and barley, providing service excellence for both farmers and end-use customers and developing new markets. External studies using CWB sales data have confirmed that this strategy provides farmers with higher returns than they would receive in an open market. In addition, all marketing revenues, less associated costs, are returned to farmers. This allows us to have a single focus: earn as much as possible for farmers through the marketing of their wheat, durum and barley.

Key performance drivers

We have established a set of corporate performance measures against which the organization measures its ongoing progress towards its goals. The existing measures were established through an extensive examination of our key business drivers. Through this exercise, the organization identified six areas of value creation:

Active farmer support – As the major stakeholders of the organization, farmer support is critical to us. To be successful, we must ensure we understand the needs of farmers and meet them better than any other organization.

Customer satisfaction – Understanding and serving customer needs is vital and ensures we will continue to be an effective grain marketer and generate maximum value for western Canadian farmers.

Maximizing returns – The organization must continually focus on earning the highest possible returns for farmers through the single desk.

Operational effectiveness – Providing high service levels to farmers and customers, while aggressively managing costs, is important to ensuring we serve farmers' interests in the best possible manner.

Market development – To ensure the continuation and development of ongoing high-value markets for western Canadian farmers' grain, we must actively develop new products and services, bring existing products and services to new markets and grow sales of current products to existing customers.

Motivated/skilled workforce – To achieve our goals, we must ensure the organization maintains a well-informed, highly skilled and motivated workforce that is focused on delivering value to farmers and customers.

The CWB has identified several key measures for each of these areas of value creation. Each year, the measures are reviewed and refined and annual targets are set in accordance with the organization's strategic objectives. Progress against these targets is measured throughout the year to ensure that the CWB continues to advance its goals and achieve results that are in line with organizational objectives.

HOW THE FINANCIAL STATEMENTS CAPTURE THE BUSINESS

The Canadian Wheat Board Act requires that we establish a separate pool account each crop year (defined as August 1 to July 31) for each of the crops we handle. Currently, we operate five pool accounts each year: one each for wheat, durum and designated barley and two for feed barley. These pool accounts capture the revenues and expenses for tonnes contracted and delivered by farmers, and sales made to customers for each specific crop. After all deliveries contracted for the crop year have been received and all activities related to the sale of grain have been completed, the net earnings for each pool are distributed to producers. We provide a separate statement of operations for each pool account to report on these activities, as well as a combined pool statement of operations.

The net earnings in each pool account are distributed back to the farmers who delivered grain during the pool period, based on sales results by grade. As a result, we do not have any retained earnings or permanent capital. The statement of distribution provides the details of how the net earnings are distributed. This statement reflects initial, adjustment, interim and final pool payments to producers as approved by the Government of Canada. It also includes any special transfers to the Contingency fund and the portion of the government approved payments related to the PPO programs.

The PPO programs were set up to give the farmers more flexibility in pricing their grain and were designed to operate outside of the pool accounts. Therefore, the PPOs do not require that net program results be returned to the users of the program. The CWB bears the risk of the programs and retains the benefits of these programs.

A Contingency fund was established and the net surplus or deficit of the PPO program (the difference between the program sales values and direct program expenses, including the payment to farmers based on contracted values) are transferred to this fund. The Contingency fund provides our only permanent capital; its maximum retained balance is $60 million and it is controlled by legislation.

Since all earnings from the pools are distributed to farmers (except those of the PPO programs), our operations are entirely financed by borrowings. These borrowings are made in various capital markets and are guaranteed by the Government of Canada.

THE CWB: ADDING VALUE FOR FARMERS

Adding value for farmers goes beyond how we market grain. We are advocates on issues that impact farmers' bottom lines, partners in research and development and allies on transportation issues.

We are committed to staying at the forefront of issues that affect farmers' profits. We lobbied against the premature introduction of genetically-modified wheat and lobbied for the expansion of the federal cash advance program. We have been a strong voice with government, appearing before the federal Standing Committee on Finance and urging the government to pay attention to the economic storm battering western Canadian farmers.

At the CWB, we believe in the value of research and development. Whether the outcome is improving farmers' income and operational success, growing sales in our high-value markets or developing relationships with new customers, research and development is key to maintaining our competitive edge. That is why we are committed to investing in research that yields new varieties of disease-resistant wheat and barley, as well as those with specific end-use qualities that customers demand. Our strategic partnerships with centres like the Canadian International Grains Institute (CIGI) or the Canadian Malting Barley Technical Centre (CMBTC) help ensure we maintain and build on our reputation for unparalleled customer service. We are also a driving force in the development of new technology, such as variety identification equipment, which promises to accommodate the introduction of new varieties, while maintaining Canada's quality assurance system.

Transportation is a fundamental issue for farmers. Getting grain grown on the Prairies to port position can be costly and complicated. Limited rail capacity means it can be tough to secure enough rail cars to move farmers' grain. When farmers market as a group through the CWB, they have the clout to demand adequate rail car service. When the railways fail to provide adequate service, we have been able to challenge them – and win. We have lobbied for changes to *The Canadian Transportation Act* that help keep costs in check. We also administer a producer car program, which allows farmers to load grain in their own communities.

CURRENT YEAR RESULTS

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.

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.

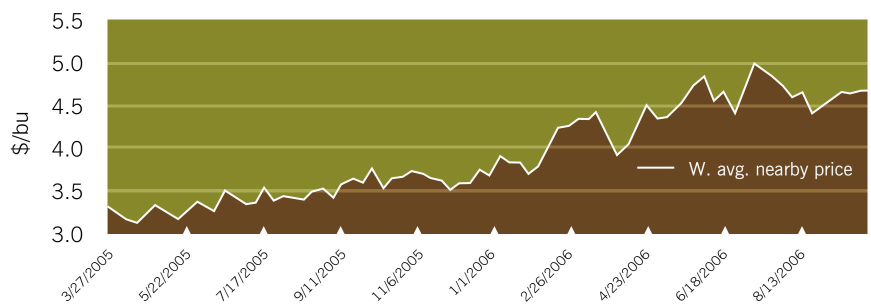
4. Strong Canadian dollar

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.

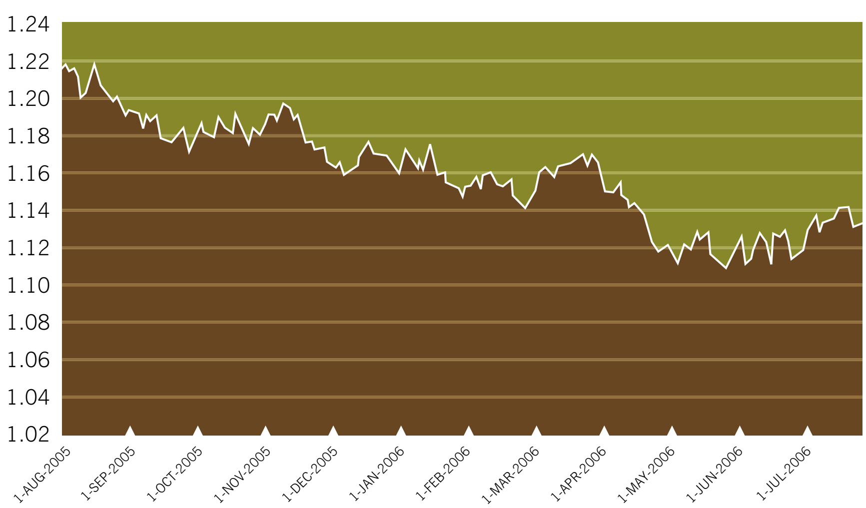
5. U.S. trade case victory

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.

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



Bank of Canada USD/CAD noon rate



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 below:

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.

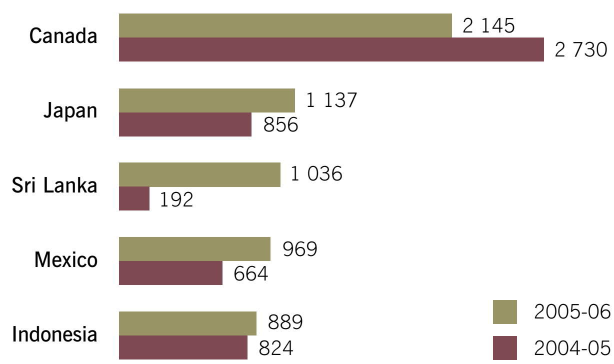
The results

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.

Largest volume wheat customers

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



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).
- 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

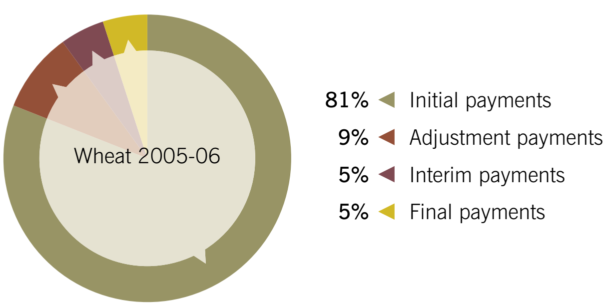
The net decrease is primarily due to a reduction in the freight-adjustment factor recovery, resulting from a decline in tonnes moving through the Thunder Bay catchment and the smaller pool size, as well as the fact that there was no PPO program allocation in 2005-06.

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.

Earnings distributed to farmers



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

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.

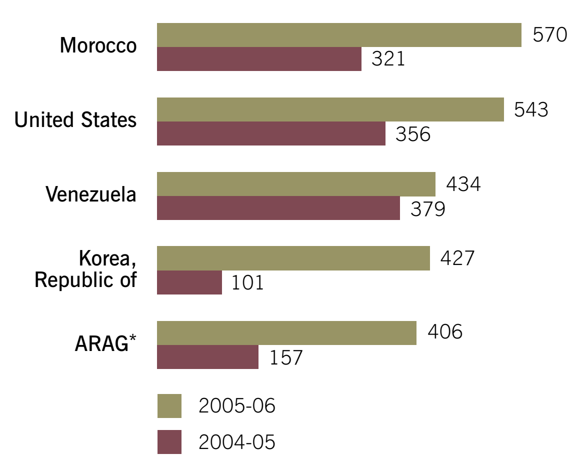
The deliveries

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.

Largest volume durum customers

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



* Amsterdam, Rotterdam, Antwerp, Ghent

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.

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

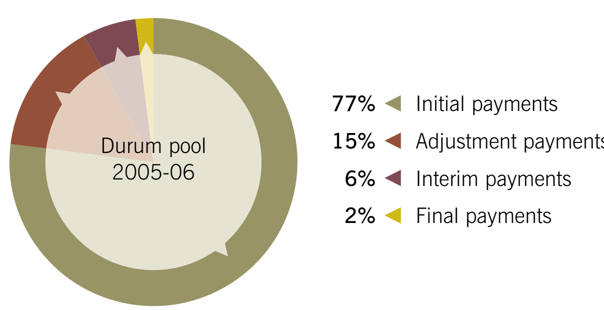
The net increase is primarily due to increased sourcing from country and additional tonnes moving through the U.S., offset by no Producer Payment Options (PPO) program allocation in 2005-06.

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 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

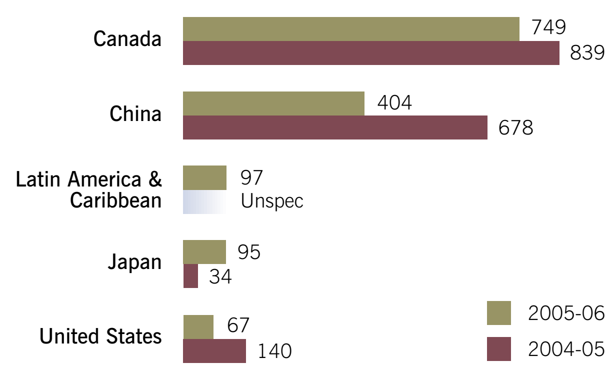
Western Canadian malting barley quality was below-average for the second consecutive year, limiting the volume of barley that met malting standards. The CWB strategy was to maximize malting barley sales early on in the marketing program for two reasons. First, given the quality problems in the malting 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.

Largest volume designated barley customers

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



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

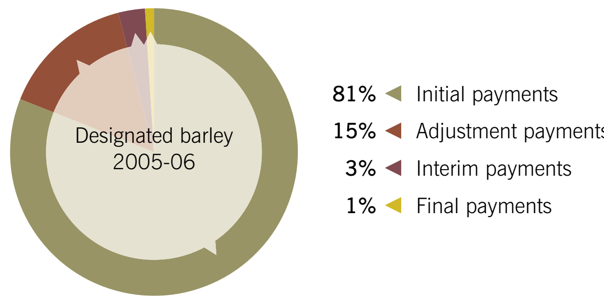
Direct costs increased $4.25 per tonne to $24.82, primarily due to higher freight costs and increased grain purchases, offset by a slight reduction in inventory storage. More specifically:

- 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.

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.

Earnings distributed to farmers



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.

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 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

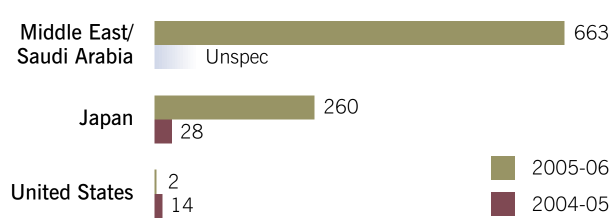
A combination of factors contributed to the large size of pool A, namely production problems with key exporters, timely demand from importers in relation to export availability from competitors, low ocean-freight rates and sustained farmer interest in marketing feed barley for export through the CWB.

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.

Largest volume feed barley pool A customers

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



Direct costs

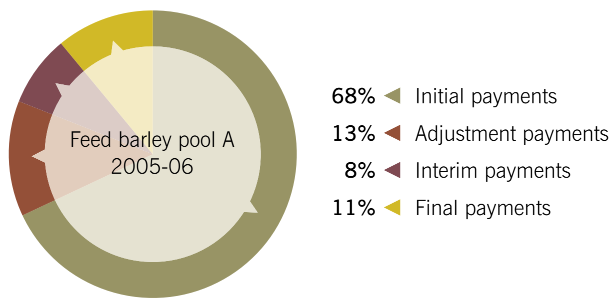
The change in pool size of the 2005-06 pool A caused greater volatility in the per-tonne rate calculated compared to 2004-05 pool A. As such, direct costs reflect a decreased per-tonne cost of $80.52, which is primarily due to:

- 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;
- 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.

Earnings distributed to farmers



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.

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.

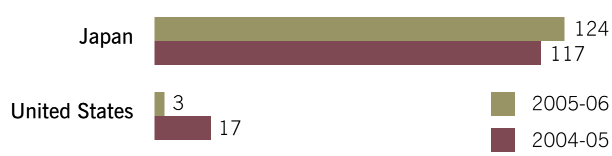
The CWB feed barley marketing strategy was to fully exploit feed barley marketing opportunities as they arose, to the extent farmer feed barley commitments provided, ensuring efficient origination and execution through the use of GDCs and tendering.

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.

Largest volume feed barley pool B customers

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



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.

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.

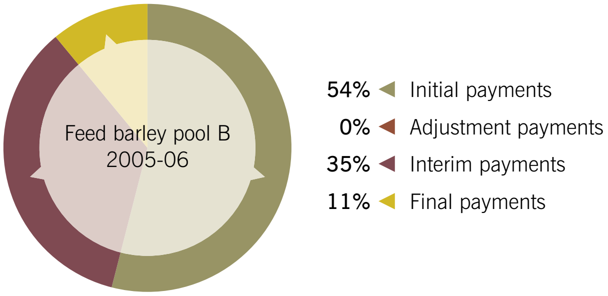
Other income

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



AS THE POSITIVE DEVELOPMENTS IN THE FEED BARLEY PRICE OUTLOOK UNFOLDED, FARMER INTEREST IN MARKETING FEED BARLEY SUPPLIES THROUGH THE CWB INCREASED.

INDIRECT INCOME AND EXPENSES

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

(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

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.

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).

LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the risk of being unable to meet corporate obligations. We operate diversified debt issuance programs to meet daily cash requirements and also hold highly-rated short-term investments to ensure that sufficient funds are available to meet debt obligations. Additionally, we maintain lines of credit with financial institutions to provide supplementary access to funds.

Cash flow – sources and uses

Since we distribute all pool account earnings to farmers, operations are almost entirely financed by debt. During the year, cash from operations may also be available. Our primary uses of funds are cash distributions to farmers, operational expenses and capital spending.

Cash provided by operations was $2.89 billion, down from the previous year, due to a lower quality crop and global pressure on prices. Investing activities contributed $1.14 billion, primarily due to credit receivable regular scheduled repayments and prepayments. This also impacted financing activities as borrowing requirements declined.

We issue adjustment and interim payments during the year. After all the accounting has been concluded, we issue a final payment to producers who delivered into the pool accounts. Total distributions to producers totalled $3.1 billion. Because the Corporation is typically in a net borrowing position, there is a zero net cash position at the end of the year.

We believe that cash generated from operations supplemented by debt issued will be sufficient to meet our anticipated capital expenditures and other cash requirements in 2006-07.

Balance sheet

The Balance sheet of the Corporation was significantly affected by the prepayment of credit receivables over the course of the year. Over $1 billion of repayments and prepayments occurred. The advance payment programs were very active over the year and increased by more than $100 million, reflecting the cash requirements of producers. The large net decrease in assets had a direct effect on the borrowings, reducing them substantially.

Over the next five years, credit receivables repayments will result in significantly lower credit receivables and corresponding borrowing levels. It will also have the effect of lowering net interest earnings. The CWB estimates that net interest earnings will progressively decline to $4 million by 2009-10.

Debt instruments

Under *The Canadian Wheat Board Act* (*The Act*) and with the approval of the federal Minister of Finance, the CWB is empowered to borrow money by any means, including the issuing, re-issuing, selling and pledging of bonds, debentures, notes and other evidences of indebtedness.

All borrowings of the Corporation are unconditionally and irrevocably guaranteed by the Minister of Finance from the time of issuance to the date of maturity. Therefore, the credit ratings of these debt issues reflect the top credit quality of the Government of Canada. Long-term and short-term ratings of the debt are currently as follows: Moody's Investors Service Senior Unsecured Ratings (Aaa/P-1), Standard & Poor's Ratings Group Issue Credit Ratings (AAA/A-1+) and Dominion Bond Rating Service Debt Ratings (AAA//R-1(high)).

THE CWB GENERATED OVER $4 MILLION IN VALUE TO FARMERS THROUGH INNOVATIVE DEBT-MANAGEMENT STRATEGIES.

We borrow money to finance grain inventories, accounts receivable from credit sales and administrative and operating expenses, and to administer the Government of Canada's advance payment programs. We borrow in a variety of currencies, but mitigate currency risk by converting debt issued into either Canadian or U.S. dollars to match the assets being financed.

We manage multiple debt programs to minimize borrowing costs and manage liquidity risk. Total debt outstanding ranged from $3 billion to $4 billion (Canadian dollar equivalent) in 2005-06. Our debt programs include:

- Domestic commercial paper program (the "Wheat Board Note" program);
- U.S. commercial paper program;
- Euro commercial paper program;
- Euro medium-term note program; and
- Domestic medium-term note program.

Although the notes issued under the Euro medium-term note program have an original term to maturity of up to 15 years and are therefore considered a long-term debt for reporting purposes, many of these notes are redeemable by the CWB before maturity, due to embedded call features.

Net borrowings decreased from $4.2 billion at the 2004-05 year-end to $3.3 billion at the close of 2005-06. The decline is primarily due to the repayment of accounts receivable from credit sales.

Off-balance sheet arrangements

We enter into off-balance sheet derivative instruments in the normal course of business. We use derivative financial instruments to manage exposure to commodity price, interest-rate and foreign-exchange rate fluctuations. Only our hedging activities are represented as off-balance sheet items.

We use derivative instruments on futures exchanges to manage the risk of adverse movements in the price of grain. We use interest-rate swaps to manage the interest rates on our debt portfolio and to manage overall borrowing costs. We primarily use foreign-exchange contracts to hedge currency exposure arising from grain sales and funding operations. These hedging activities are further discussed under the "Market risk" heading of the Financial risk management section of the Management Discussion and Analysis.

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.

FINANCIAL RISK MANAGEMENT

We seek to minimize risks related to the financial operations of the Corporation. We actively manage exposure to financial risks and ensure adherence to approved corporate policies and risk-management guidelines.

Governance framework

The board of directors approves the risk tolerance of the Corporation and ensures a proper risk-management framework is in place to identify, assess and manage financial risk effectively.

Ongoing responsibilities for managing financial risk are articulated through board-approved policies, other related corporate policies and government and regulatory agency requirements. Board and management oversight, accountability and a strong control culture is in place to manage financial risks.

The Financial Risk Management Committee oversees the financial risk-management operations. This committee establishes and recommends to the board of directors the financial risk-management policies and procedures that ensure policies are consistent with the goals and objectives of the Corporation and are in compliance with government and regulatory requirements. The Financial Risk Management Committee is chaired by the chief executive officer and includes the chief financial officer, chief operating officer and other senior management representatives involved in managing corporate risk.

Corporate Audit Services is responsible for ensuring that the financial risk-management operations are periodically audited.

Market risk

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

Commodity-price risk is the exposure to reduced revenue due to adverse changes in commodity prices. We use exchange-traded futures and option contracts to mitigate commodity-price risk inherent in its core business for the wheat pool.

Our commodity risk-management program involves an integrated approach that combines sales activity with exchange-traded derivatives, to manage risk of an adverse movement in the price of grain between the time the crop is produced and the time the crop is ultimately sold to customers. Exchange-traded derivatives are used to complement sales activities to provide flexible pricing alternatives to customers, such as basis contracts, and to engage in discretionary pricing activities when necessary. We also manage the commodity-price risk related to the various PPOs offered to Prairie farmers that provide pricing choices and cash flow alternatives.

Foreign-exchange risk is the exposure to changes in foreign-exchange rates that may adversely affect Canadian dollar returns. Sales are priced either directly or indirectly in U.S. dollars, resulting in exposure to foreign-exchange risk.

To manage foreign-exchange risk, we hedge foreign-currency revenue values using derivative contracts to protect the expected Canadian dollar proceeds on sales contracts. An integrated approach is used, together with sales activity. In addition, we manage foreign-exchange risk as it relates to the various PPOs.

Interest-rate risk is the exposure to changes in market interest rates that may adversely affect net interest earnings. Interest-rate risk arises from the mismatch in term and interest-rate re-pricing dates on interest-earning assets and interest-paying liabilities. This risk is managed by the CWB. The spread between the interest-earning assets and interest-paying liabilities represents net interest earnings, which are paid to farmers annually.

Credit risk

Credit risk is the risk of potential loss, should a counterparty fail to meet its contractual obligations. We are exposed to credit risk on non-guaranteed credit sales accounts receivable, as well as credit risk on investments and over-the-counter derivative transactions used to manage market risks. We enter into master agreements with all counterparties to minimize credit, legal and settlement risk. We transact only with highly rated counterparties who meet the requirements of our financial risk-management policies. These policies meet or exceed the Minister of Finance's credit policy guidelines.

The commodity futures and option contracts involve minimal credit risk, as the contracts are exchange-traded. We manage our credit risk on futures and option contracts by dealing through exchanges, that require daily mark-to-market and settlement adjustments.

Accounts receivable from credit sales

We sell grain under two government-guaranteed export credit programs: the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). Under the ACF, the CWB assumes a portion of credit risk. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. For more information on credit sales, see Financial statement note 3.

Investments

We use short-term investments for the purpose of cash management and liquidity risk management, adhering to the requirements of *The Act*, our annual borrowing authority granted by the Minister of Finance and applicable government guidelines. We manage investment-related credit risk by transacting only with highly rated counterparties.

Operational risk

Operational risk is the risk of loss resulting from a breakdown in administrative procedures and controls or any aspect of operating procedures. Our operational risk-management philosophy encourages an environment of effective operational risk discipline. Operational risk-management activities include segregation of duties, cross-training and professional development, disaster recovery planning, the use of an integrated financial system, internal and external audits and an independent risk-control and reporting function.

WE ACTIVELY MANAGE EXPOSURE TO FINANCIAL RISKS AND ENSURE ADHERENCE TO APPROVED CORPORATE POLICIES AND RISK-MANAGEMENT GUIDELINES.

OUTLOOK

The 2006-07 growing season was warmer and dryer 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.

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

BChell

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

	2006 Total	2006 Per tonne	2005 Total	2005 Per tonne
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 (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.

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