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.

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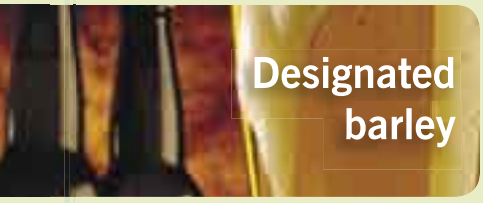
OUR BUSINESS

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

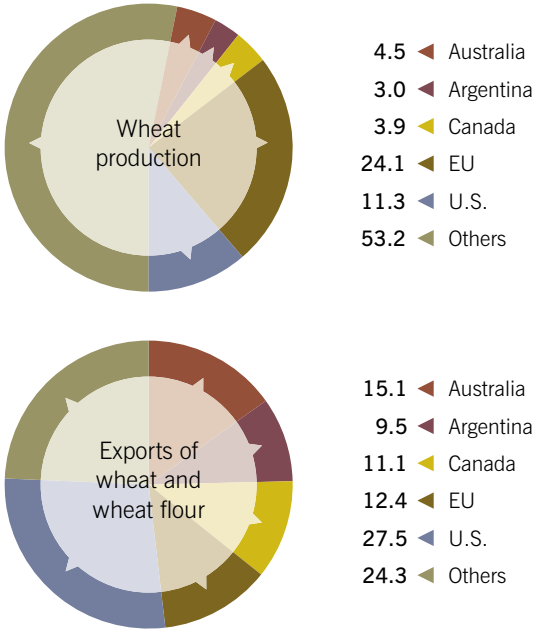
The global market for wheat, durum and barley is highly competitive. For more than 70 years, we have sustained and built our market presence through branding, reputation and customer service. As a result, we have become the largest wheat and barley marketer in the world. However, all competitors are 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.

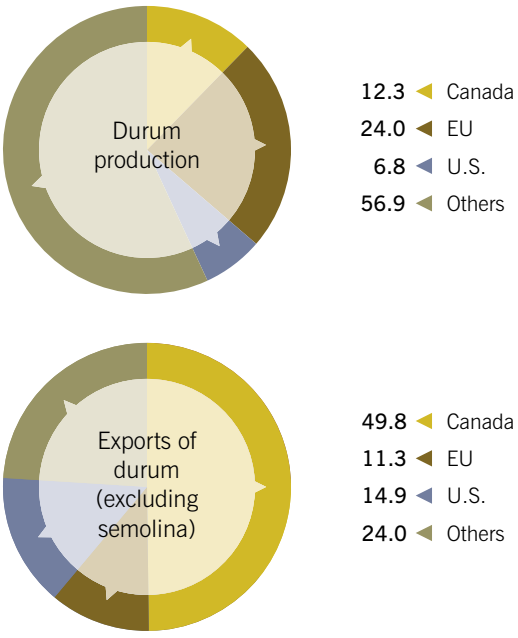
Global buyers value Canadian durum for its consistency, quality and ease of supply, which is ensured by our superior marketing and grain-handling systems. Italian pasta makers are among the top buyers of Canadian durum, while other valuable customers include North Africa (Algeria, Morocco, Tunisia), 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.

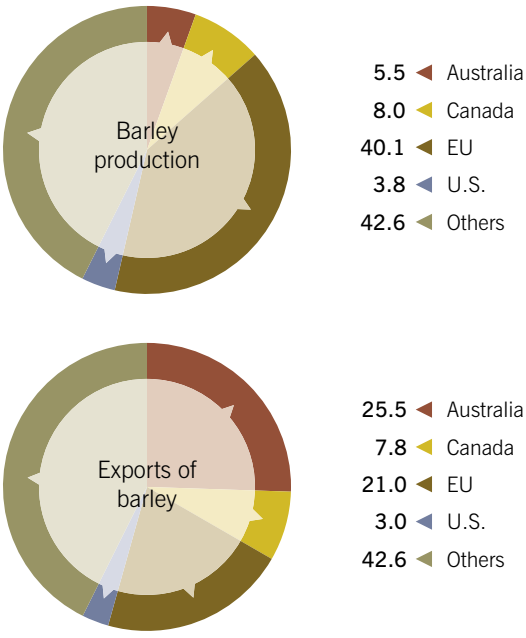
Market shares of production and exports by principal durum exporting regions – FIGURE 2

(% 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)



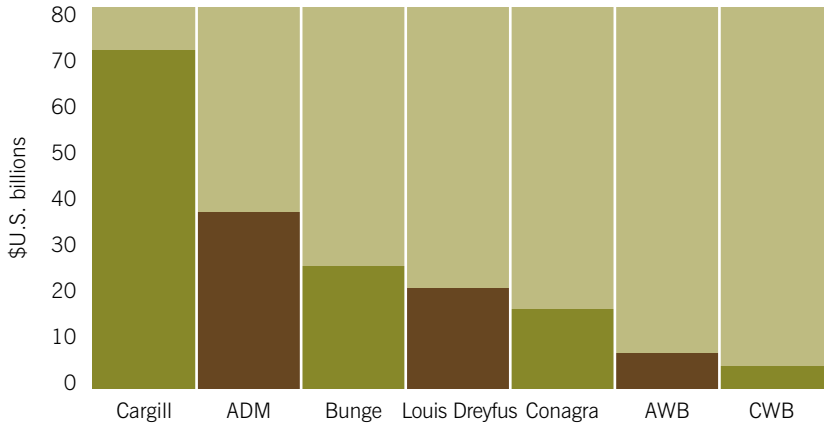
Corporate concentration

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.

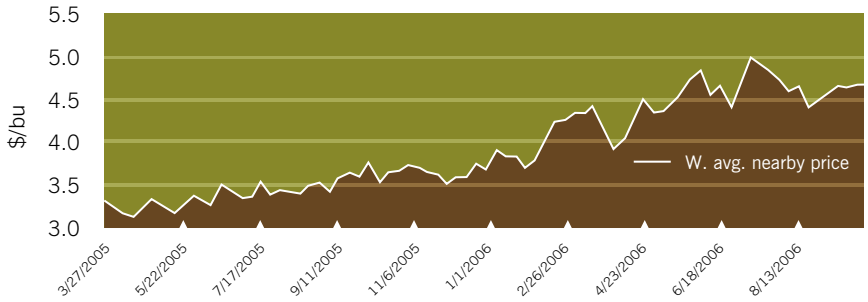
4. Strong Canadian dollar

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.

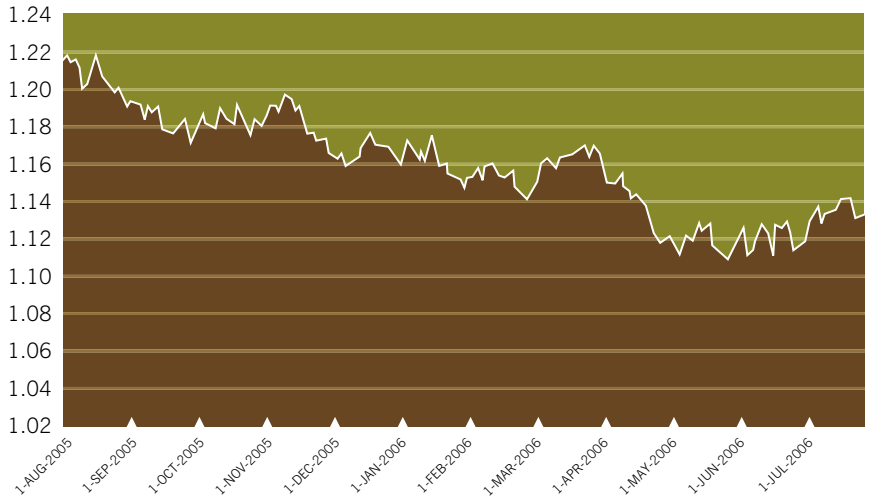
5. U.S. trade case victory

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.

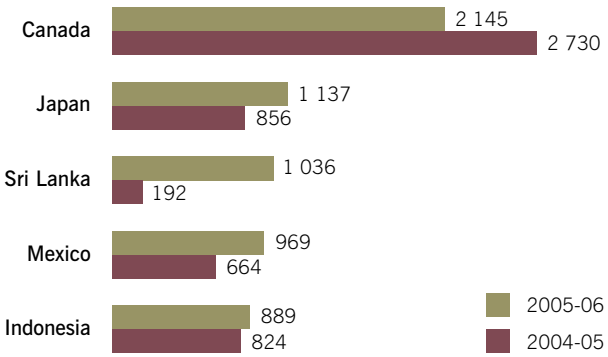
The results

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

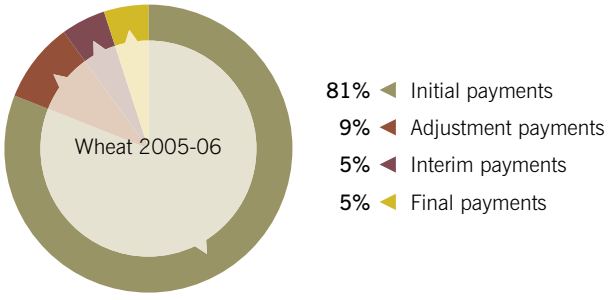
The net decrease is primarily due to a reduction in the freight-adjustment factor recovery, resulting from a decline in tonnes moving through the Thunder Bay catchment and the smaller pool size, as well as the fact that there was no PPO program allocation in 2005-06.

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.

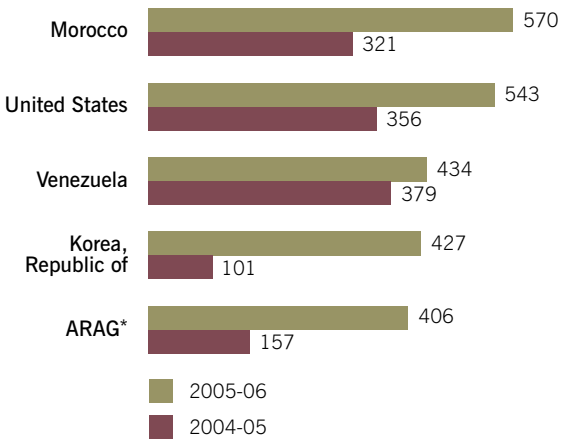
The deliveries

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

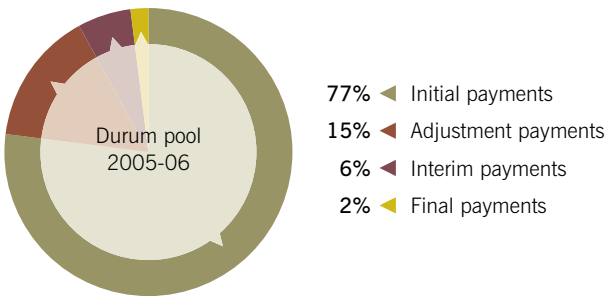
The net increase is primarily due to increased sourcing from country and additional tonnes moving through the U.S., offset by no Producer Payment Options (PPO) program allocation in 2005-06.

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

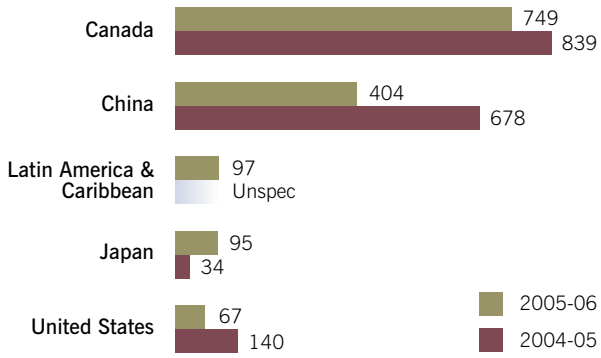
Western Canadian malting barley quality was below-average for the second consecutive year, limiting the volume of barley that met malting standards. The CWB strategy was to maximize malting barley sales early on in the marketing program for two reasons. First, given the quality problems in the malting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

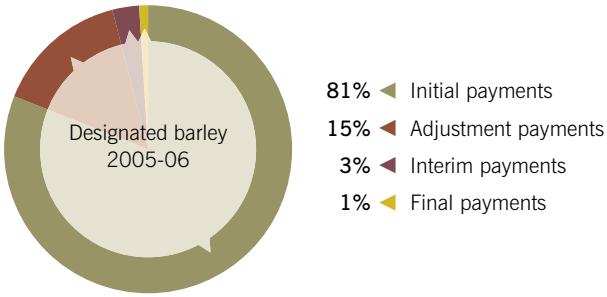
Direct costs increased $4.25 per tonne to $24.82, primarily due to higher freight costs and increased grain purchases, offset by a slight reduction in inventory storage. More specifically:

- 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

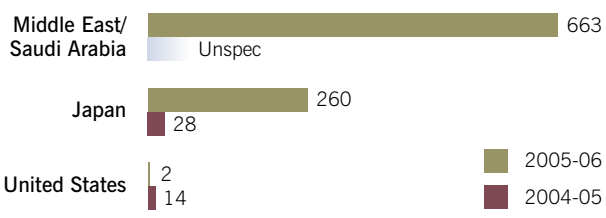
A combination of factors contributed to the large size of pool A, namely production problems with key exporters, timely demand from importers in relation to export availability from competitors, low ocean-freight rates and sustained farmer interest in marketing feed barley for export through the CWB.

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

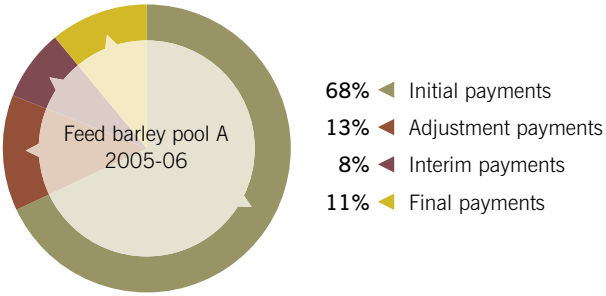
The change in pool size of the 2005-06 pool A caused greater volatility in the per-tonne rate calculated compared to 2004-05 pool A. As such, direct costs reflect a decreased per-tonne cost of $80.52, which is primarily due to:

- 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.

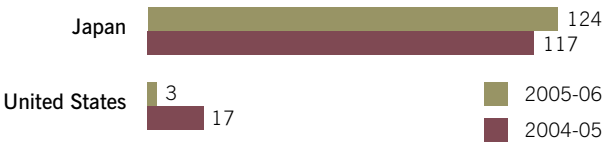
The CWB feed barley marketing strategy was to fully exploit feed barley marketing opportunities as they arose, to the extent farmer feed barley commitments provided, ensuring efficient origination and execution through the use of GDCs and tendering.

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.

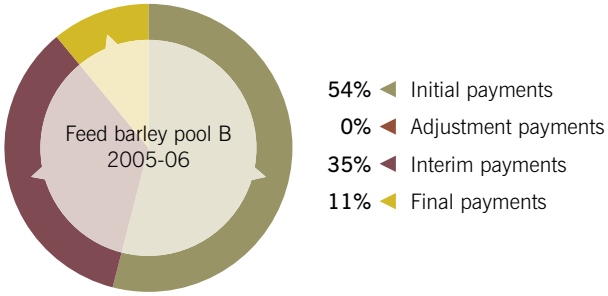
Other income

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.