



## 1ST QUARTER REPORT – OCTOBER 31, 2004

### MANAGEMENT'S DISCUSSION & ANALYSIS

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#### TO OUR SHAREHOLDERS

As expected, the Pool's financial results for the first quarter of fiscal 2005 were affected by poor weather conditions that delayed the completion of harvest into the second quarter. The variance between the current and prior years' three-month reporting periods is more pronounced because last year's harvest was virtually complete by the end of August, allowing for fall fieldwork to be completed. In addition, the quality of the crop was significantly better last year, leading to margin enhancement opportunities in the grain business earlier in the year.

#### SUMMARY OF CONSOLIDATED RESULTS

Sales and other operating revenues for the first quarter of fiscal 2005 were \$229 million, which compares to \$283 million in the first quarter of the previous year. The decline reflects:

- Significantly lower non-Board commodity prices,
- Softer demand for fertilizer due to the cold, wet weather that delayed post-harvest fieldwork including fertilizer applications, and
- A higher proportion of Canadian Wheat Board shipments during the quarter relative to last year (the Pool reflects only the tariff portion of CWB grains in its sales numbers whereas non-Board grains and oilseeds are included in sales based on their gross values).

Earnings before interest, taxes, depreciation and amortization, or EBITDA, were down \$11.1 million to a loss of \$2.1 million compared to earnings of \$9.0 million a year earlier. The primary variance relates to the Grain Handling and Marketing segment. The Pool experienced unusually low grain margins during the quarter because of the late harvest, which resulted in having to pay high purchase premiums and shipping costs to secure the required quality commodities to meet its sales commitments.

Interest expense was \$9.4 million compared to \$10.2 million in the first quarter last year. Approximately \$2.9 million of this year's total represented non-cash accretion. Last year, the Pool recorded approximately \$2.5 million of non-cash accretion as interest expense.

Amortization for the three months ended October 31, 2004, was \$6.4 million up slightly from the \$6.0 million in the first quarter last year.

Earnings before interest and taxes, or EBIT, for the first three months of fiscal 2005 were a loss of \$8.5 million versus earnings in fiscal 2004's first quarter of \$3.0 million.

During the first quarter of fiscal 2005, the Pool received a settlement on an outstanding tax matter of \$1.4 million, \$0.7 million of which is reflected as interest income and \$0.7 million reduced tax expenses. There were no one-time items in the first quarter last year.

The net loss from continuing operations for the first quarter was \$15.6 million and compares to a loss last year of \$7.1 million. The net loss including results from discontinued operations last year was \$9.8 million. The loss per share for the first quarter of fiscal 2005 was \$0.09 per share compared to \$0.08 per share in fiscal 2004.

## SEGMENT RESULTS

### *Grain Handling and Marketing*

The Pool's Grain Handling and Marketing segment shipped 1.5 million tonnes of grain and oilseeds in the first quarter of fiscal 2005, compared to 1.4 million tonnes in the first quarter of last year. Approximately 69% of the Pool's shipments were made on behalf of the Canadian Wheat Board. Last year, during the first quarter approximately 61% of the Pool's shipments were CWB grains. The year-over-year increase in Board grains primarily resulted from the Board fulfilling its commitments with the remainder of previous year's crop because a large portion of this year's crop remained in the field due to cold, wet weather.

Producer deliveries into the Pool's primary elevators were similar year-over-year at 1.6 million tonnes. The timing of grain volumes was consistent with harvest progress throughout Western Canada. Higher deliveries relative to the previous year's quarter came into Alberta locations first, where harvest completion was the highest. Deliveries into Saskatchewan and Manitoba facilities were down somewhat because of the harvest delays in those provinces.

Total port terminal volumes at the Pool's wholly owned export facilities were 0.9 million tonnes in the first three months of this fiscal year, down from 1.1 million tonnes a year earlier. In August and September, the Pool shut down its Vancouver terminal to complete the modernization of its unload system, part of its planned capital expenditure program at this facility. The upgrade is expected to improve throughput capacity and speed by 15% to 20% annually. Volumes at the Vancouver terminal for the quarter were down approximately 29% to accommodate this work and approximately half of the receipts were CWB grains. At the Pool's Thunder Bay facility, receipts were up approximately 6% to 478,000 tonnes, the bulk of which (78%) were CWB grains. As previously noted, because of the lack of available new crop, the CWB focused on moving the remainder of the previous year's crop in order to meet its sales commitments.

The Pool's share of volumes through Prince Rupert Grain was approximately 109,000 tonnes up from only 21,000 tonnes last year. Again, this resulted from the CWB's increased movement of wheat and barley relative to the previous year's quarter, which saw a delay in their sales program to the latter part of that year's first quarter.

#### **Three Months Ended October 31**

Volumes

(in thousands of metric tonnes)

	<b>F2005</b>	<b>F2004</b>	<b>Increase (Decrease)</b>
Primary elevator receipts	1,612	1,633	(1)%
Primary elevator shipments	1,515	1,421	7%
Terminal operations			
Vancouver	436	611	(29)%
Thunder Bay	478	453	6%
Share of affiliates	109	21	419%
Total terminal operations	1,023	1,085	(6)%

The Pool's pipeline margin per tonne was down substantially for the quarter. The early frost and delayed harvest made it difficult to secure sufficient quantities of grains and oilseeds to meet sales commitments. As a result, the Pool incurred higher purchase and shipping costs to position enough quality wheat, canola and malt barley to load vessels. In addition, the Pool earned lower storage and interest revenues because of lower in-store stocks of CWB grains and had fewer blending opportunities because of poorer quality this year.

EBITDA from this segment for the quarter was \$1.5 million, which compares to \$12.7 million in the first quarter last year. Included in this year's total was a one-time recovery of approximately \$0.7 million related to interest income received on a tax reassessment. EBIT for the quarter was a loss of \$1.1 million compared to earnings of \$10.3 million in last year's first quarter.

### ***Agri-products***

The Pool's Agri-products segment generated sales of \$52 million compared to \$59 million in the first quarter of last year. The primary reason for the decline related to the impact of weather on the timing of post-harvest fieldwork. By the end of August last year, the harvest was virtually complete and the dry fall allowed farmers to apply fertilizer, which drove significant anhydrous ammonia sales in the first quarter. This year, farmers continued to harvest throughout the quarter and most post-harvest fieldwork was delayed into the second quarter.

EBITDA for the quarter was a loss of \$3.4 million, which compares to a \$3.0 million loss recorded in last year's first quarter. The change was primarily due to timing delays that resulted in lower fertilizer sales volumes and margins in the first quarter. Earnings in this segment are heavily weighted to the fourth quarter given the significance of the spring selling season on earnings and the fixed cost nature of the Pool's expansive Western Canada retail operation. Segment EBIT for the quarter was a loss of \$6.0 million compared to a loss of \$5.4 million in the first quarter of fiscal 2004.

### ***Agri-food Processing***

The Agri-food Processing segment generated sales for the quarter of \$31 million similar to the previous year's first quarter. At Can-Oat, sales volumes were on par with last year, because of stronger demand for finished products. Overall, sales values declined reflecting the industry-wide commodity price reductions that have occurred year-over-year. At Prairie Malt, sales were up approximately 19%. This change reflects normalized sales levels this year as opposed to the first quarter of fiscal 2004, when Prairie Malt was still recovering from the impact of the poor 2003 crop.

Segment EBITDA for the quarter was \$3.8 million up from \$3.5 million in the prior year. At Can-Oat, the favourable change in product mix resulted in margins that were similar to the first quarter last year. However, the impact of the Canadian-U.S. exchange rate has created some timing differences that will defer a portion of their earnings into future quarters. Prairie Malt's earnings recovery was directly related to the crop quality issues it experienced in the first quarter of last year. Segment EBIT for the first quarter was \$2.5 million and in the first quarter of 2004 was \$2.2 million.

### ***Outlook***

Based on the December 8, 2004 Statistics Canada data, western Canadian production is estimated at 53 million tonnes, up from the 46.6 million tonnes in fiscal 2004 but slightly ahead of the five-year average of 52.5 million tonnes. The outlook for the Grain Handling and Marketing segment will be dependent upon export opportunities for the remainder of the year as the industry addresses the challenges of a poor quality crop. The CWB's last official estimate pegs its export program at 16 million tonnes, the same level as fiscal 2004. Feed wheat exports will depend on growers' willingness to market their wheat, which has been slow to date because of lower prices. Non-Board exports are currently estimated at 6.5 million tonnes, bringing the 2005 estimated export program to 22.5 million tonnes, down slightly from 22.9 million tonnes in 2004.

The Pool's grain shipments for fiscal 2005 are expected to exceed 2004 levels, the extent to which will be dependent on the above-noted factors. Grain margins per tonne are expected to decline by 10% to 15% on average reflecting the poor quality crop. For the Pool's Agri-products business, current moisture conditions are encouraging for the spring selling season, particularly in the fertilizer business. With the larger 2004 crop, soil fertility has declined which is expected to stimulate fertilizer demand. The Pool's Agri-products business is highly seasonal and its results remain dependent upon farmers' seeding intentions and good growing conditions throughout the season.

For the company as a whole, management expects more of its sales and earnings to be generated in the last half of fiscal 2005. Capital expenditures are expected to increase to approximately \$20 million in fiscal 2005 from \$17 million in fiscal 2004 and will be primarily directed toward maintaining the current infrastructure.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Working Capital***

Current assets were \$351 million at October 31, 2004, similar to October 31, 2003, levels. A decrease in short-term investments and receivables was offset by an increase in inventories and cash. The decrease in receivables was due to significantly lower volumes of CWB grain held in the country system offset by higher agri-products receivables. The increase in inventory was due to higher agri-products inventory partly offset by the elimination of the hog inventory as a result of the sale of the Pool's interests in the hog production business in May of 2004.

Current assets were up by \$26 million over July 31 levels due to seasonally higher levels of both non-Board grain and agri-products inventory offset by a decrease in cash and short-term investments.

Current liabilities were \$252 million at October 31, 2004 down \$10 million from October 31, 2003. Bank indebtedness and short-term borrowings were \$19 million lower. Member loans increased by \$8 million reflecting renewed customer confidence in the Pool.

Current liabilities were up \$42 million over July 31 levels due mainly to an increase in accounts payable resulting from the seasonal increases in deferred cash tickets for grain and agri-products payables.

Working capital was \$99 million at October 31, 2004, compared to \$91 million at October 31, 2003, and \$114 million at July 31, 2004. Working capital was used during the quarter to finance operating activities as well as capital spending of \$3.9 million and the repayment of long-term debt of \$2.5 million.

The company has a \$240 million asset-backed revolving credit facility with its bankers to finance working capital needs. Drawings on the facility at October 31 were \$41 million related to letters of credit and similar instruments required to operate an agri-business. Availability under the facility is determined by reference to the level of inventories and accounts receivable. An additional \$37 million was available to draw on the facility at October 31, 2004.

### ***Cash Flow Information***

Cash flow used in continuing operations was \$8.1 million for the three months ending October 31, 2004. This compares to cash flow from continuing operations of \$2.5 million for the quarter ending October 31, 2003. The decrease reflects a slower harvest, a later fall fertilizer season and a lower quality crop.

### **Long-term Debt**

Long-term debt increased marginally from July 31, 2004 to \$253 million at October 31, 2004. Accretion on the Senior Subordinated Notes and the debt component of the Convertible Subordinated Notes totaled \$2.9 million. This was partially offset by \$1.5 million in principal payments on the Pool's bank term loan and \$1.0 million in principal payments by subsidiaries and joint ventures on their debt. The principal repayment on the bank term debt relates to the sale of the aquaculture business and a final settlement from the Heartland Pork sale.

No principal repayments are required on the Pool's \$79 million bank term loan until October 2005 and no principal payments are due on the \$150 million Senior Subordinated Notes until they mature on November 29, 2008.

### **Convertible Subordinated Notes**

Convertible Subordinated Notes with a principal value of \$255 million were issued under the Pool's financial restructuring initiative. Each \$1,000 of notes is convertible, at the option of the holder, into approximately 2,227 Class B non-voting shares at any time prior to the November 30, 2008 maturity date. Conversions of the Notes to October 31, 2004, were as follows:

	<u>Convertible Notes</u> (face value)	<u>Class B Shares</u> (in thousands)
Issued January 31, 2003	\$255,000	60,363
Conversions – six months ended July 31, 2003	<u>(50,172)</u>	<u>111,744</u>
Notes outstanding July 31, 2003	204,828	172,107
Conversions – year ended July 31, 2004	<u>(26,990)</u>	<u>60,112</u>
Notes outstanding July 31, 2004	177,838	232,219
Conversions – three months ended October 31, 2004	<u>(4,275)</u>	<u>9,522</u>
Notes outstanding October 31, 2004	<u>\$ 173,563</u>	<u>\$ 241,741</u>

At maturity, the Pool has the right to convert, subject to certain conditions, the Convertible Subordinated Notes into a single class of voting common shares of the Pool that represent 90% of the outstanding shares of such class on a fully diluted basis, provided that any conversions by holders of such notes into Class B non-voting shares prior to maturity proportionately reduces this 90% conversion ratio. Under this provision, the Convertible Subordinated Notes that remain outstanding at October 31, 2004, would receive approximately 61% of these newly created shares on a fully diluted basis.

On the October 31, 2004 balance sheet, \$130 million of the Convertible Subordinated Notes was recorded as equity and \$29 million as debt. The difference between the sum of these amounts (\$159 million) and the \$174 million par value notes along with future interest accruals of \$111 million is being accreted to November 30, 2008.

### **Convertible Subordinated Notes – Equity Component**

	(in thousands)
July 31, 2004 book value	\$128,635
Accretion to retained earnings	5,013
Conversions – three months ended October 31, 2004	<u>(3,817)</u>
October 31, 2004 book value	<u>\$129,831</u>

## FORWARD LOOKING INFORMATION

Certain statements in this Management's Discussion and Analysis are forward-looking and reflect the Pool's expectations regarding future results of operations, financial condition and achievements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance and achievements of the Pool to be materially different from any future results, performance and achievements expressed or implied by those forward-looking statements. A number of factors could cause actual results to differ materially from expectations, including weather conditions, crop production and crop quality in Western Canada; world agricultural commodity prices and markets; producers' decisions regarding total seeded acreage, crop selection and utilization levels of farm inputs such as fertilizers and crop protection products; the extent of the company's financial leverage and funding requirements; credit risk; foreign exchange risk; changes in the grain handling and agri-products competitive environments, including pricing pressures; Canadian grain export levels; changes in government policy and transportation deregulation; international trade matters; global political and economic conditions, including grain subsidy actions and tariffs of the United States and the European Union; competitive developments in connection with the Pool's grain handling, agri-products, agri-food processing businesses and other operations; and environmental risks and unanticipated expenditures relating to environmental and other matters.

## EBITDA DATA

The EBITDA data provided herein is intended to provide further insight with respect to the company's financial results and to supplement its information on earnings (loss) as determined in accordance with GAAP. Similar data may not be provided by other issuers and, if provided, needs to be carefully examined to determine whether it is comparable to the company's EBITDA data.



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Chief Executive Officer



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Chief Financial Officer

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**SASKATCHEWAN WHEAT POOL  
CONSOLIDATED BALANCE SHEETS**

(in thousands) <b>AS AT</b>	<b>OCTOBER 31 2004</b> (unaudited)	<b>OCTOBER 31 2003</b> (unaudited)	<b>JULY 31 2004</b> (audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	\$ 5,091	\$ 874	\$ 17,169
Cash in trust (Note 13b)	2,540	539	1,176
Short-term investments (Note 4)	16,381	31,927	25,999
Accounts receivable	163,604	169,972	164,234
Inventories	146,402	134,736	104,887
Prepaid expenses and deposits	15,586	12,516	9,810
Future income taxes	962	1,458	1,198
	<u>350,566</u>	<u>352,022</u>	<u>324,473</u>
<b>Investments</b>	4,972	5,052	5,051
<b>Property, Plant and Equipment</b>	264,916	286,790	266,842
<b>Other Long-Term Assets</b>	7,893	9,759	8,219
<b>Future Income Taxes</b>	97,547	80,324	95,565
	<u>\$ 725,894</u>	<u>\$ 733,947</u>	<u>\$ 700,150</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Bank indebtedness (Note 5)	\$ 19,029	\$ 6,622	\$ 29,805
Short-term borrowings (Note 6)	467	31,534	1,501
Members' demand loans	18,056	10,408	18,691
Members' Class A shares	1,782	1,790	1,783
Accounts payable and accrued liabilities	205,648	204,024	150,745
Long-term debt due within one year (Note 7)	6,950	7,082	7,893
	<u>251,932</u>	<u>261,460</u>	<u>210,418</u>
<b>Long-Term Debt (Note 7)</b>	253,227	266,959	251,930
<b>Other Long-Term Liabilities</b>	39,682	45,123	40,980
<b>Future Income Taxes</b>	5,805	7,407	5,944
	<u>550,646</u>	<u>580,949</u>	<u>509,272</u>
<b>Shareholders' Equity</b>			
Share capital (Note 8)	85,104	62,778	81,287
Contributed surplus	177	112	177
Convertible Subordinated Notes - equity component (Note 9)	129,831	132,331	128,635
Retained earnings (deficit)	(39,864)	(42,223)	(19,221)
	<u>175,248</u>	<u>152,998</u>	<u>190,878</u>
	<u>\$ 725,894</u>	<u>\$ 733,947</u>	<u>\$ 700,150</u>

Guarantees and contingencies (Note 13).

**SASKATCHEWAN WHEAT POOL**  
**CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS (DEFICIT)**

(in thousands)		
FOR THE PERIODS ENDED (Unaudited)	Three Months OCTOBER 31 2004	Three Months OCTOBER 31 2003 (restated - Note 3)
<b>Sales and Other Operating Revenues</b>	\$ 228,706	\$ 283,385
<b>Cost of Sales and Expenses</b>		
Cost of sales and operating expenses	218,713	262,346
Selling and administrative expenses	12,083	12,018
Amortization	6,439	6,032
	<u>237,235</u>	<u>280,396</u>
<b>(Loss) Earnings Before Interest and Taxes</b>	(8,529)	2,989
Interest expense (Note 11)	9,355	10,176
<b>Loss Before Corporate Taxes</b>	(17,884)	(7,187)
Recovery of corporate taxes	2,254	68
<b>Net Loss From Continuing Operations</b>	(15,630)	(7,119)
<b>Net Loss From Discontinued Operations (Note 3)</b>	-	(2,687)
<b>Net Loss</b>	(15,630)	(9,806)
<b>Retained Earnings (Deficit), Beginning of Period (Note 1)</b>	(19,221)	(27,388)
Accretion of equity component of Convertible Subordinated Notes (Notes 9 and 10)	(5,013)	(5,029)
<b>Retained Earnings (Deficit), End of Period</b>	<u>\$ (39,864)</u>	<u>\$ (42,223)</u>
<b>Basic and Diluted Earnings (Loss) Per Share (Note 10)</b>		
<b>From Continuing Operations</b>	\$ (0.09)	\$ (0.07)
<b>Net Loss</b>	<u>\$ (0.09)</u>	<u>\$ (0.08)</u>

**SASKATCHEWAN WHEAT POOL  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)	<b>Three Months OCTOBER 31 2004</b>		<b>Three Months OCTOBER 31 2003 (restated - Note 3)</b>	
<b>FOR THE PERIODS ENDED</b>				
(Unaudited)				
<b>Cash From (Used in) Operating Activities</b>				
Net loss from continuing operations	\$	(15,630)	\$	(7,119)
Add (deduct) items not involving cash				
Amortization		6,439		6,032
Future income taxes (recovery) expense		(1,885)		20
Pension (Note 12)		534		781
Interest accretion (Note 11)		2,872		2,482
Other items		(462)		346
<b>Cash flow (used in) from continuing operations</b>		<b>(8,132)</b>		<b>2,542</b>
Changes in non-cash working capital items				
Accounts receivable		630		50,733
Inventories		(41,515)		(19,405)
Accounts payable		53,737		40,269
Prepaid expenses and deposits		(5,776)		(2,911)
<b>Changes in non-cash working capital - continuing operations</b>		<b>7,076</b>		<b>68,686</b>
<b>Cash (used in) from operating activities - continuing operations</b>		<b>(1,056)</b>		<b>71,228</b>
<b>Cash from operating activities - discontinued operations</b>		<b>-</b>		<b>556</b>
<b>Cash (used in) from operating activities</b>		<b>(1,056)</b>		<b>71,784</b>
<b>Cash From (Used in) Financing Activities</b>				
Repayment of long-term debt		(2,518)		(1,834)
Repayment of short-term borrowings		(1,034)		(61,177)
Repayment of other long-term liabilities, net		(954)		(927)
(Repayment) proceeds of members' demand loans		(635)		1,243
Repayment of members' Class A shares		(1)		(1)
Cash used in discontinued operations		-		(380)
<b>Cash used in financing activities</b>		<b>(5,142)</b>		<b>(63,076)</b>
<b>Cash From (Used in) Investing Activities</b>				
Property, plant and equipment expenditures		(3,904)		(1,514)
Proceeds on sale of property, plant and equipment		764		536
Increase in cash in trust		(1,364)		(52)
Decrease in investments		18		-
Increase in other long-term assets		(236)		(192)
Cash used in discontinued operations		-		(612)
<b>Cash used in investing activities</b>		<b>(4,722)</b>		<b>(1,834)</b>
<b>(Decrease) Increase in Cash and Cash Equivalents</b>		<b>(10,920)</b>		<b>6,874</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>		<b>13,363</b>		<b>19,305</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$</b>	<b>2,443</b>	<b>\$</b>	<b>26,179</b>

Cash and cash equivalents consist of cash, short-term investments and bank indebtedness.

Supplemental disclosure of cash paid during the period from continuing operations:

Interest paid	\$	6,204	\$	7,560
Income taxes paid, net	\$	938	\$	626

**SASKATCHEWAN WHEAT POOL  
SEGMENTED FINANCIAL INFORMATION  
FOR THE PERIOD ENDED OCTOBER 31, 2004  
(Unaudited and in thousands)**

	<b>Three Months Ended OCTOBER 31 2004</b>	<b>Three Months Ended OCTOBER 31 2003</b>
<b>SALES</b>		(restated)
Grain Handling and Marketing	\$ 148,780	\$ 199,672
Less: Sales to Discontinued Operations	-	(2,236)
Grain Handling and Marketing - Revised	148,780	197,436
Agri-products	52,014	59,069
Agri-food Processing	31,002	31,237
Intersegment sales	(3,090)	(4,357)
	<b>\$ 228,706</b>	<b>\$ 283,385</b>

**SASKATCHEWAN WHEAT POOL  
SEGMENTED FINANCIAL INFORMATION  
SEGMENTED EARNINGS FROM OPERATIONS  
(Unaudited and in thousands)**

(restated)

	Three months ended October 31, 2004			Three months ended October 31, 2003		
	EBITDA	Amortization	EBIT	EBITDA	Amortization	EBIT
Grain Handling and Marketing	\$ 1,516	\$ (2,582)	\$ (1,066)	\$ 12,685	\$ (2,340)	\$ 10,345
Agri-products	(3,419)	(2,571)	(5,990)	(3,017)	(2,404)	(5,421)
Agri-food Processing	3,813	(1,286)	2,527	3,526	(1,288)	2,238
<b>Segment Results</b>	<b>1,910</b>	<b>(6,439)</b>	<b>(4,529)</b>	<b>13,194</b>	<b>(6,032)</b>	<b>7,162</b>
Corporate expenses	(4,000)	-	(4,000)	(4,173)	-	(4,173)
<b>Per Financial Statements</b>	<b>\$ (2,090)</b>	<b>\$ (6,439)</b>	<b>\$ (8,529)</b>	<b>\$ 9,021</b>	<b>\$ (6,032)</b>	<b>\$ 2,989</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2004 in thousands of Canadian dollars, except as noted**

**1. FINANCIAL REORGANIZATION**

**a) Basis of Presentation**

The company was subject to a financial reorganization with an effective date of January 31, 2003. The company has accounted for the financial reorganization by using the principles of comprehensive revaluation (fresh start accounting) as required under Canadian generally accepted accounting principles (GAAP). Fresh start accounting necessitated the revaluation of all assets and liabilities of the company at estimated fair values and the elimination of the company's deficit.

At January 31, 2003 the book value of substantially all current assets and current liabilities approximated fair value. The following assets and liabilities required restatement to fair values.

- i. Property, plant and equipment – at the fair value supported by future anticipated cash flows
- ii. Goodwill and pre-operating costs – at nil in accordance with GAAP
- iii. Pension and other employee future benefit plans – at values determined by an independent actuary
- iv. Senior Subordinated Notes – at current trading value
- v. Debt component of Convertible Subordinated Notes – at the present value of estimated interest payments associated with 2006 to 2008 fiscal years
- vi. Future income taxes – at amounts more likely than not to be realized over periods not exceeding five years
- vii. Unamortized portion of the costs associated with current and prior lending arrangements reflected as long-term assets – at nil
- viii. Unamortized portion of the costs associated with prior lending arrangements reflected as prepaid expenses – at nil
- ix. Costs of restructuring – written off through the fresh start adjustment
- x. Agri-products equipment inventory – at selling prices less disposal costs

An equity value of \$178.6 million was calculated in order to establish the January 31, 2003 fresh start consolidated balance sheet. The equity value reflected management's estimate, which was based on the trading value of the company's Class B shares combined with an estimate of the fair value of the non-debt component of the company's Convertible Subordinated Notes. As a result of the reorganization and the application of fresh start accounting, the share capital of the company was reduced by \$435.4 million, including \$88.9 million related to the elimination of the company's deficit.

**b) Comparability of Periods**

Certain prior period amounts have been reclassified in order to conform with current period classifications.

**2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

The unaudited interim consolidated financial statements (interim financial statements) include the accounts of Saskatchewan Wheat Pool, its subsidiaries and affiliated companies and have been prepared in accordance with GAAP. These interim financial statements do not include disclosures normally provided in annual financial statements and should be read in conjunction with the company's fiscal 2004 Annual Report.

Weather conditions are the primary risk in the agri-business industry. Grain volumes, grain quality, the level and mix of crop inputs, and, ultimately, the financial performance of the company are highly dependent upon weather conditions throughout the crop production cycle.

The company's earnings are seasonal. Sales primarily follow weather patterns and the crop production cycle and are generally strongest in the spring when crops are seeded and in the fall when crops are harvested. Earnings in the Grain Handling and Marketing segment are generally strongest in quarter one (August – October) and quarter four (May – July) as producers deliver grain into the primary elevator system to reduce on farm storage limitations and to generate cash flow to finance seeding and harvest expenditures. Agri-products sales of crop protection products, seed and seed treatments, fertilizer and farm equipment peak in the fourth quarter when crops are seeded. Sales of crop protection products and fertilizer also occur in the first quarter, as producers prepare land before the arrival of inclement winter weather, in anticipation of spring seeding. Earnings and sales in the Agri-food Processing segment are less seasonal. Collectively, the sales patterns of the core Grain Handling and Marketing and Agri-products segments result in the fourth quarter traditionally being the strongest quarter for the company.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2004 in thousands of Canadian dollars, except as noted**

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the company may undertake in the future. Management believes that the estimates are reasonable, however, actual results could differ from these estimates.

The interim financial statements are based upon accounting principles consistent with those used and described in the annual financial statements, except for the following:

**Change in Accounting Policies**

Effective August 1, 2004, the company adopted the new Canadian Institute of Chartered Accountants (CICA) standard regarding Asset Retirement Obligations (ARO's) (CICA Handbook section 3110). This standard applies to the recognition and measurement of legal obligations on the acquisition, construction, development or normal use of property, plant or equipment owned by the company or its affiliates. The standard requires the obligation be recognized in the financial statements in the period incurred provided a reasonable estimate of the fair value can be determined. As time passes, accretion is charged to earnings to recognize the fair value of the obligation.

Under previous generally accepted accounting principles, a joint venture, which formerly manufactured phosphate and nitrate fertilizers, recorded a reclamation provision in 1987 as its estimate of future removal and site restoration costs. The assets related to this former manufacturing operation have been retired and therefore are reflected at nil value on these statements. The previously established reclamation provision encompassed obligations related to the demolition of the manufacturing facilities and the reclamation of the phosphogypsum stacks, not all of which were legal obligations as defined under CICA Handbook section 3110.

The impact of retroactively transitioning to the new ARO standard is as follows:

- No impact on reclamation provision or retained earnings at July 31, 2004 (July 31, 2003 – negligible)
- Negligible impact on earnings for the both fiscal 2005 and fiscal 2004

At October 31, 2004 the company's proportionate share of the undiscounted cash flow required to settle the ARO is approximately \$15.5 million which is expected to be settled over the 2005 through 2014 period.

**3. DISCONTINUED OPERATIONS**

In the year ended July 31, 2004, the company exited its Heartland Pork, Heartland Feeds and Aquaculture operations and will not have any continuing involvement in these operations. The results of these operations for the prior year have been reclassified as discontinued operations, in accordance with CICA 3475 Disposal of Long-Lived Assets and Discontinued Operations.

On May 21, 2004, Heartland Pork and Heartland Feeds were sold. On July 26, 2004 the Aquaculture operation was sold. The cash proceeds from the divestitures were \$22.1 million. The senior secured bank term loan was reduced by \$10.3 million in the year ended July 31, 2004. The balance of the proceeds was used to reduce short-term borrowings. During the three months ended October 31, 2004, the company repaid an additional \$1.5 million of term debt upon final settlement.

The breakdown of discontinued operations presented in the consolidated statements of earnings and retained earnings (deficit) is as follows:

	Three Months Ended October 31 2004	Three Months Ended October 31 2003
Loss before corporate taxes	\$ -	\$ (2,622)
Corporate tax expense		
Current	-	(65)
Future	-	-
Total corporate tax expense	-	(65)
Net loss from discontinued operations *	\$ -	\$ (2,687)

\* Net loss from discontinued operations includes:

Sales and service revenues	\$ -	\$ 11,296
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2004 in thousands of Canadian dollars, except as noted**

**4. SHORT-TERM INVESTMENTS**

	October 31 2004	October 31 2003	July 31 2004
Saskatchewan Wheat Pool short-term investments	\$ 5,000	\$ -	\$ -
Subsidiaries' and proportionate share of joint ventures' short-term investments	11,381	31,927	25,999
	<b>\$ 16,381</b>	<b>\$ 31,927</b>	<b>\$ 25,999</b>

**5. BANK INDEBTEDNESS**

	October 31 2004	October 31 2003	July 31 2004
Saskatchewan Wheat Pool bank indebtedness	\$ 17,262	\$ 3,550	\$ 27,560
Subsidiaries' and proportionate share of joint ventures' bank indebtedness	1,767	3,072	2,245
	<b>\$ 19,029</b>	<b>\$ 6,622</b>	<b>\$ 29,805</b>

**6. SHORT-TERM BORROWINGS**

	October 31 2004	October 31 2003	July 31 2004
Saskatchewan Wheat Pool short-term borrowings	\$ -	\$ 31,534	\$ -
Subsidiaries' and proportionate share of joint ventures' short-term borrowings	467	-	1,501
	<b>\$ 467</b>	<b>\$ 31,534</b>	<b>\$ 1,501</b>

The company has a \$240 million asset backed revolving credit facility with its bankers, secured by accounts receivable, to the extent of drawings on the securitization program, and a first charge on the company's assets. The facility matures July 31, 2005. Interest is payable monthly at prime plus 3%.

At October 31, 2004 the company had outstanding letters of credit and similar instruments of \$41.1 million related to operating an agri-business (October 31, 2003 - \$42.4 million; July 31, 2004 - \$30.6 million). These instruments effectively reduce the amount of cash that can be drawn on the revolving credit facility.

At October 31, 2004 availability under the revolving credit facility was \$37.3 million (October 31, 2003, - \$58.9 million; July 31, 2004 - \$68.0 million).

Subsidiaries' and proportionate share of joint ventures' short-term borrowings consist of bank operating loans, which are secured by inventories, accounts receivable and property, plant and equipment. The company does not guarantee, nor does it have responsibility for the repayment of the subsidiaries' or joint ventures' loans.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2004 in thousands of Canadian dollars, except as noted**

**7. LONG-TERM DEBT**

	October 31 2004	October 31 2003	July 31 2004
Senior secured bank term loan (a)	\$ 78,730	\$ 90,600	\$ 80,251
Senior Subordinated Notes (b)	134,020	127,076	132,188
Convertible Subordinated Notes – debt component (c)	28,775	24,832	27,735
Members' term loans	4,311	4,473	4,300
Subsidiaries and proportionate share of joint ventures' debt	14,341	27,060	15,349
	<u>260,177</u>	<u>274,041</u>	<u>259,823</u>
Portion due within one year			
Members' term loans	560	1,175	659
Senior secured bank term loan (a)	956	-	-
Subsidiaries and proportionate share of joint ventures' debt	5,434	5,907	7,234
	<u>6,950</u>	<u>7,082</u>	<u>7,893</u>
<b>Total long-term debt</b>	<b>\$ 253,227</b>	<b>\$ 266,959</b>	<b>\$ 251,930</b>

**(a) Senior Secured Bank Term Loan**

- Interest is payable monthly at 8% until the commencement of blended monthly principal and interest payments of approximately \$1.5 million, which begin October 1, 2005.
- Balloon principal payment due July 31, 2008.
- Secured by a first ranking charge on the company's assets.
- In accordance with the credit agreement with the company's bankers, net proceeds received from the sale of certain property, plant and equipment is required to be repaid to reduce the loan outstanding. During the three months ended October 31, 2004, in accordance with the credit agreement with the company's bankers, the company repaid \$1.5 million, representing the balance of the net proceeds received from the sale of certain businesses or business assets (see Note 3) (three months ended October 31, 2003 - nil).

**(b) Senior Subordinated Notes**

- At the time of the January 31, 2003 restructuring, the Senior Subordinated Notes were recorded at estimated fair value. The company is accreting up to their \$150.0 million face value through monthly present value adjustments (accretion) to the Senior Subordinated Notes with a corresponding charge to increase interest expense.
- Interest is payable monthly into a trust and distributed quarterly. Prior to July 31, 2005, interest is at 8% of the face value, thereafter interest is at 12%. The face value at October 31, 2004 is \$150.0 million (October 31, 2003 - \$150.0 million; July 31, 2004 - \$150.0 million).
- No principal payments are required until maturity on November 29, 2008.
- The company may redeem the Notes prior to maturity at a premium ranging from 106% of the principal at any time prior to January 1, 2005 to 101% after December 31, 2006.
- Secured by a second ranking charge against the company's assets – subordinate to the revolving credit facility and the senior secured bank term loan and ranking equally with the members' demand loans and members' term loans.

**(c) Convertible Subordinated Notes**

- At the time of the January 31, 2003 restructuring the company separated the Convertible Subordinated Notes into their debt and equity components, according to their substance. The debt component was estimated at the present value of the cash interest expected to be paid in accordance with the threshold test mentioned below. The company is accreting up to that initial estimate through monthly present value adjustments (accretion) to the Convertible Subordinated Notes with a corresponding charge to increase interest expense. The equity component is being accreted such that the value as of November 29, 2008 (the day before the company's conversion right) will reflect the face value and accrued interest not paid in cash of the remaining, unconverted, Convertible Subordinated Notes. This accretion is recorded as a reduction of retained earnings (deficit).
- Interest accrues at 9%. No payment of interest is required prior to July 31, 2005. Interest may become payable after the end of each of the fiscal years 2006 to 2008, provided that certain cumulative consolidated EBITDA less consolidated cash interest and securitization threshold tests are met. Any interest not paid will continue to accrue.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2004 in thousands of Canadian dollars, except as noted**

Annual interest payments are limited to a maximum of the interest accruing on the notes during each of the fiscal years 2006 to 2008.

- The company believes that two events have occurred such that the threshold tests will not be met, thereby negating the payment of cash interest in 2006, 2007 and 2008. First, the Grain Handling and Marketing segment had reduced EBITDA in fiscal 2004 resulting from the drought associated with the 2003 crop. Second, the company has divested of Heartland Pork and Heartland Feeds in May 2004. Both items adversely impact the test. However, in accordance with CICA Emerging Issues Committee Abstract 70, the company will maintain its original debt / equity classification of the Convertible Subordinated Notes and will continue to accrete interest to debt and interest expense using its original estimates until the threshold test dates have passed and the actual interest based on the tests is formally determined.
- Secured by a third ranking charge against the company's assets.
- Convertible by the holder into Class B non-voting shares of the company at the rate of approximately 2,227.2 shares per \$1,000 of Note principal at any time prior to November 30, 2008 (subject to adjustment in certain events, such as a share consolidation or share split).
- On November 30, 2008 the company has the right to convert, subject to certain conditions, the Convertible Subordinated Notes (including accrued interest) into shares of a single class of voting common shares of the company that represent 90% of the outstanding shares of such class on a fully diluted basis, provided that any conversions by holders of such Notes into Class B non-voting shares prior to maturity proportionately reduce this ratio. Under this provision the Convertible Subordinated Notes that remain outstanding at October 31, 2004 would receive approximately 61% of these newly created shares on a fully diluted basis.
- During the three months ended October 31, 2004, \$4.3 million face value of 9% Notes (since inception - \$81.4 million) were converted at the holder's option into 9.5 million Class B non-voting shares (since inception – 181.4 million) leaving \$173.6 million of face value outstanding.

**(d) Other**

- The sale of certain collateral for proceeds in excess of \$10 million would necessitate a partial redemption of, first, the Senior Subordinated Notes until redeemed in full and, secondly, the proceeds would be applied to the Convertible Subordinated Notes.
- Members' term loans are secured and consist of one-year to seven-year loans with Class A shareholders and employees. Interest is payable semi-annually at interest rates which vary from 5.5% to 9.0%.
- The subsidiaries' and the proportionate share of joint ventures' debts bear interest at fixed and variable rates. The debts mature in years 2005 to 2007. The debts are secured by certain assets and some are subject to meeting certain covenants.
- The company does not guarantee nor does it have responsibility for the repayment of the subsidiaries' or joint venturers' debts.

**8. SHARE CAPITAL**

The following table summarizes the Class B non-voting share capital for the three-month periods ended October 31, 2004 and October 31, 2003.

	<b>Issued and Outstanding</b>	
	# Shares *	\$ Amount
Balance at July 31, 2003	172,107,044	\$ 59,417
Convertible Subordinated Notes converted to Class B shares in the period	9,696,751	3,361
Balance at October 31, 2003	181,803,795	62,778
Convertible Subordinated Notes converted to Class B shares in the period	50,414,954	18,509
Balance at July 31, 2004	232,218,749	81,287
Convertible Subordinated Notes converted to Class B shares in the period	9,522,075	3,817
Balance at October 31, 2004	241,740,824	\$ 85,104

\* Number of shares are not shown in thousands.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2004 in thousands of Canadian dollars, except as noted**

**9. CONVERTIBLE SUBORDINATED NOTES – EQUITY COMPONENT**

The company issued \$255 million of Convertible Subordinated Notes as part of the January 31, 2003 financial restructuring. These Convertible Subordinated Notes are classified on the balance sheet into their debt and equity components. The table below provides a continuity of the equity component.

Balance at July 31, 2003	\$ 130,663
Accretion to retained earnings	5,029
Conversions in the three months ended October 31, 2003 with a face value of \$4.3 million (see note 8)	(3,361)
<u>Balance at October 31, 2003</u>	<u>132,331</u>
Accretion to retained earnings	14,813
Conversions in the nine months ended July 31, 2004 with a face value of \$22.7 million (see note 8)	(18,509)
<u>Balance at July 31, 2004</u>	<u>128,635</u>
Accretion to retained earnings	5,013
Conversions in the three months ended October 31, 2004 with a face value of \$4.3 million (see note 8)	(3,817)
<u>Balance at October 31, 2004</u>	<u>\$ 129,831</u>

**10. EARNINGS PER SHARE**

	Three Months Ended October 31 2004	Three Months Ended October 31 2003
Net loss	\$ (15,630)	\$ (9,806)
Less: Net loss from continuing operations	(15,630)	(7,119)
<u>Loss from discontinued operations (numerator – discontinued operations)</u>	<u>\$ -</u>	<u>\$ (2,687)</u>
Net loss from continuing operations	\$ (15,630)	\$ (7,119)
Accretion of equity component of Convertible Subordinated Notes	(5,013)	(5,029)
<u>Numerator – continuing operations</u>	<u>\$ (20,643)</u>	<u>\$ (12,148)</u>
Net loss	\$ (15,630)	\$ (9,806)
Accretion of equity component of Convertible Subordinated Notes	(5,013)	(5,029)
<u>Numerator – net loss</u>	<u>\$ (20,643)</u>	<u>\$ (14,835)</u>
Denominator for basic and diluted per share amounts: Weighted average number of shares outstanding	239,999	177,489
Basic and diluted loss per share: Continuing operations	\$ (0.09)	\$ (0.07)
Discontinued operations	\$ (0.00)	\$ (0.01)
<u>Net loss</u>	<u>\$ (0.09)</u>	<u>\$ (0.08)</u>

In calculating the weighted average number of shares outstanding, the 22.9 million shares issued as part of the restructuring were assumed to be issued as of January 31, 2003.

The potentially dilutive effect of the conversion of the Convertible Subordinated Notes and the exercise of options related to the New Members' and Management Stock Option Plans were not included in the calculation of diluted earnings (loss) per share as the result would be anti-dilutive.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2004 in thousands of Canadian dollars, except as noted**

**11. INTEREST EXPENSE**

	Three Months Ended October 31 2004	Three Months Ended October 31 2003 (restated)
Saskatchewan Wheat Pool interest	\$ 6,435	\$ 7,613
Saskatchewan Wheat Pool non-cash accretion and amortization	2,872	2,482
Subsidiaries and proportionate share of joint ventures' interest	48	81
	<u>\$ 9,355</u>	<u>\$ 10,176</u>

**12. POST EMPLOYMENT BENEFITS**

The company's net benefit cost related to defined benefit pension plans and retiring allowances is \$0.5 million for the three months ended October 31, 2004 (three months ended October 31, 2003 - \$0.8 million). The company's contribution expense related to defined contribution pension plans is \$0.8 million for the three months ended October 31, 2004 (three months ended October 31, 2003 - \$0.7 million)

**13. GUARANTEES AND CONTINGENCIES**

- a) Banking letters of credit and similar instruments – see note 6.
- b) Under the terms of an agreement, a financial institution provides credit for the purchase of crop inputs to customers of the company (producers). Loans are stratified based on program years. Producer loans are generally due to this financial institution on January 31 following the program year. Loans under the programs are secured by a general security agreement granted by the customer covering the crop and farm assets.

The company collects loan payments from producer customers in trust for this financial institution and forwards collections the next business day.

Under the agreement, the company has agreed to reimburse this financial institution for loan losses in excess of a reserve (see the table below). Reimbursement amounts are payable to this financial institution at the end of December or eleven months following the due date of the producers' loan. The company expects that loan losses in excess of those provided for in these financial statements will not be significant. When payments for delinquent accounts are made to the financial institution with respect to this program, the delinquent account is assigned to the company and the company is then to collect the amounts payable by the customer. Subsequent collections of these delinquent accounts are allocated to the company and the financial institution in accordance with each parties prorated share of the collection proceeds.

	Producer Due Date - January 31	Company Reimbursement Date - December 31	October 31 2004 Producer Balance Outstanding	October 31 2003 Producer Balance Outstanding	July 31 2004 Producer Balance Outstanding
2002 loan program	2003	2003	\$ -	\$ 1,084	\$ -
2003 loan program	2004	2004	3,341	130,581	4,652
2004 loan program	2005	2005	153,590	2,593	157,940
2005 loan program	2006	2006	253	-	-
			<u>\$ 157,184</u>	<u>\$ 134,258</u>	<u>\$ 162,592</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2004 in thousands of Canadian dollars, except as noted**

	October 31 2004	October 31 2003	July 31 2004
Total company provision	\$ 7,501	\$ 3,882	\$ 8,312
Portion due within one year	(2,844)	(872)	(3,810)
Long-term portion	\$ 4,657	\$ 3,010	\$ 4,502

- c) The company has an investment in Western Co-operative Fertilizers Limited (WCFL). WCFL holds a further interest in Canadian Fertilizers Limited (CFL). In late 2003, CFL received a notice of proposed adjustment from the Canada Revenue Agency (CRA) as a result of an audit of its 1997 to 2000 taxation years. The CRA has taken the position that deductions by CFL for certain management fees paid under contract to a shareholder of CFL should not be allowed.

The CRA has not yet formally reassessed CFL and discussions with the CRA are ongoing. CFL believes that the position of the CRA lacks merit and that the tax dispute will be resolved with no material impact on its shareholders. However, if the issue cannot be resolved in favor of CFL, the company's proportionate share of maximum exposure is approximately \$5.3 million.

- d) In the normal course of business, the company can, from time to time, commit to secure agri-products inventory from a related party, for delivery at a future date. At October 31, 2004, the dollar value of this commitment was \$0.5 million (2003 – nil).