Saskatchewan Wheat Pool

Second Quarter Conference Call

March 16, 2006, 8:00 a.m. (Regina Time)

Colleen Vancha:

Good morning ladies and gentlemen and welcome to the Pool’s second quarter conference call for fiscal 2006.

Before we begin our discussion, I would like to note that:

Investors are cautioned that the following comments and responses to questions may contain forward-looking statements. Such statements are based on certain assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those expressed or implied. Additional information about these assumptions and factors can be found in our disclosure in the quarterly MD&A under the section titled forward-looking information. The information presented today is presented as of today's date and will not be updated

Joining us today on the call is: Mayo Schmidt, President and CEO, Wayne Cheeseman, CFO, Fran Malecha, Senior Vice President, Grain Group and Doug Weinbender, Vice President of Agri-products.

Mayo, I’ll turn the call over to you.

Mayo Schmidt: Thank you.

I will begin today by discussing the Pool’s results for the quarter and year-to-date period and then move on to the press release that was announced yesterday with respect to the issuances of $150 million of senior unsecured notes.

To highlights the grain segment:

- The Pool's shipments for the quarter were 2.1 million tonnes, up approximately 18% over last year's quarter
- Six months volumes totaled 3.9 million tonnes versus 3.3 million tonnes a year earlier.
- Grain Handling and Marketing EBITDA was $12.1 million, up 71% from last year. We exclude one-time items for comparative purposes
- The Pool's market share was up a full percentage point to 24% from 23% due to the larger crop in our primary market region.
- Volumes through our Vancouver port terminal were up 53% in the first six months of 2006 versus the same period a year ago,
- This reflects a strong non-Board export program and the impact of efficiency improvements associated with our joint venture operating arrangement with James Richardson International Ltd.

As I indicated in the press release for Agri-Products, results this quarter primarily reflect timing issues. We remain optimistic particularly for our retail operations as we look forward to the busy spring season.

For the company as a whole, sales and operating revenues for the quarter were $368 million, up about 14%. All three business segments recorded stronger sales for the three-month period.

For the first six months sales and other operating revenues were $642 million, up from $551 million for the same period in 2005.

EBITDA for the second quarter was $11 million compared to $14 million in the second quarter in 2005. The $3 million variance quarter-over-quarter includes last year's one-time positive item of $0.9 million. I will discuss the various components contributing to the better results in my segment commentary. I would also like to note that as I review the number, I will be excluding one-time items from last year's results for comparative purposes.

Interest expense declined by $2.7 million quarter-over-quarter. This quarter's $6 million expense included $1 million in non-cash. Last year's second quarter interest of $8.7 million included $3 million of non-cash .

Interest expense for the six months was down 34%. This reflects the result of the recapitalization and rights offering completed during 2005.

Results from continuing operations improved both for the quarter and year-to-date periods.

- for the quarter the loss was $2.0 million, an improvement of approximately $400,000.
- For the six months, we cut the loss from $19.3 million to $9.6 million

The net earnings for the quarter were $2.9 million compared a loss of $0.9 million last year. The earnings per share for the second quarter in 2006 was $0.04 per share compared to a loss of $0.50 per share in the same quarter last year

This quarter's profit includes a $4.9 million net recovery from discontinued operations related to filings through a federal-provincial risk management program.

I'd now like to provide some additional colour on the Grain Handling and Marketing segment.

- As I indicated, the Pool's shipments were up approximately 18% for the quarter and year-to-date periods.
- Producer deliveries into our system were also up relative to last year – by 15%.

Our gross margin during the second quarter was $17.68 per tonne versus $16.90 per tonne last year. On a year-to-date basis, gross margins recovered to $18.11 per tonne versus $16.21 per tonne last year, excluding last year's one-time items. Overall margins were up 11.8% so far this year.

Stronger volumes and access to new crop supplies earlier in this year were the major factors for the improvement. I would like you to note the change in crop mix. Last year approximately 64% of the Pool's shipments were Canadian Wheat Board grains. This year, the percentage of Board shipments was only 56%. Wheat and durum exports, which tend to be higher margin, have been sluggish to date. Strong movement in the last half of the year will be necessary for the Board to meet its export targets.

Grain EBITDA for the second quarter was $12 million, compared to $7 million last year. On a year-to-date basis, EBITDA was $17 million more than double the $8 million earned last year. As you recall there is an addition $3.2 million of grain volume insurance costs included in this year's numbers that was not included last year.

In the Agri-products segment, second quarter sales were $89 million versus $75 million last year. Our retail sales were similar to last year with the majority being fertilizer products. Western Co-operative Fertilizer Ltd. sales were 30% higher than the previous year's second quarter but those numbers reflected higher selling prices.

Sales for the first six months were $143 million, a 12% increase from $127 million generated in 2005. The Pool experienced a 26% sales increase, while WCFL sales were up 2.4%.

WCFL's selling prices in the first six months reflected increased natural gas costs and those high sales <u>values</u> more than offset lower sales <u>volumes</u> on a year-to-date basis.

From an earnings perspective, Agri-Products EBITDA for the second quarter was zero, which compares to earnings of $5.4 million recorded in last year's second quarter. On a year-to-date basis, EBITDA was a loss of $4.8 million compared to earnings of $2.0 million in the first six months last year.

You may recall, this fall the Pool granted its customers extended terms for their 2004 crop inputs because of the severe frost that occurred. As a result we booked a higher bad debt allowance this year to reflect this change. Given the larger crop, the repayment history of our producers, and recent federal dollars flowing to the farm community, we are confident that collections will normalize by year-end. In fact collections related to the 2005 crop year are ahead of last year at this time.

On the cost side, the Pool changed its distribution supplier during the quarter and incurred some additional costs to reposition product into the country system. This is a timing issue and we do not expect our annual distribution costs to increase year-over-year.

Margins reflected a return to typical producer buying behaviour for seed as well some timing issues on supplier rebates. For WCFL competitive factors and higher energy prices pressure their margins.

For the Agri-food Processing segment, sales for the quarter were up 2.5% to $31 million.

- Can-Oat's sales were $23 million up from $22 million in the last year's second quarter.
- Prairie Malt sales were $8.1 million compared to $8.5 million in the second quarter of last year.

On a year-to-date basis, segment sales were $60 million, down slightly from $61 million last year.

- Can-Oat's sales grew by 7% to $46 million from $43 million in its first six months last year.

- Prairie Malt’s sales were $14 million down from $18 million in the previous year.

Can-Oat results illustrate stronger finished products sales, including both oat flakes and bran. We are seeing strong demand and growth in the consumption of food products containing oats.

At Prairie Malt, sales volumes improved quarter-over-quarter but sales values were down. Their year-to-date sales reflect lower volumes and lower sales values.

Agri-Food Processing EBITDA for the second quarter was on par with last year and on a year-to-date basis, was $10.3 million, up 16% from a year ago.

Turning to the balance sheet , you will note that the Pool’s total debt declined $112 million over last year - a direct result of the balance sheet strategies we employed in 2005.

Our debt to equity ratio improved to 34:66 compared to 64:36 at January 31, 2005. Long-term debt to equity was 29:71 compared to 60:40 at the end of last year’s second quarter.

We are extremely pleased with our financial position today. The improvements that we were able to implement as a result of the recapitalization and rights offering have strengthened our foundation and have provided us with added flexibility to better absorb weather impacts and look to the future with a sense of optimism.

As we look ahead to the spring and summer months when the majority of our earnings are generated in Agri-Products, we remain positive. The high yields produced last year and generally good subsoil moisture conditions are good signals for fertilizer sales for the remainder of the year. Crop mix is also a factor that influences demand. For the crop protection product season, approximately 85% of annual sales occur in the fourth quarter. The Pool's repositioned distribution model will allow us to maximize product-to-farm movement through this critical period. WCFL's annual contributions will reflect the margin issues and the competitive pressures experience during the first six months of 2006. We will be monitoring their performance with respect to the lower natural gas prices of late to see what impact that may have on overall contributions for the year.

We will also watch plantings carefully. We have seen some hesitancy among producers in finalizing their seeding intentions because of low commodity prices and expected carry-overs of canola and durum. Special crops and oilseed products such as canola typically demand more crop inputs and are therefore important commodities for the Pool's agri-products business. We will be focusing our marketing programs on proprietary wheat and canola varieties that offer high yields, superior quality and end-use marketing demand to support our agri-products spring selling season.

For the grain business, total exports are projected to increase 18%. Even so, the industry predicts significant carryover into fiscal 2007. In fact, Statistics Canada estimated that on-farm stocks are well above average for many commodities with record levels of both durum and canola.

We believe that on-farm stocks of the six major grains in Western Canada could reach 11 mmt by year-end, which would be up considerably from the 7.7 mmt carried over into 2006 and more than double the 4.8 mmt average carryover. This should provide additional volume for fiscal 2007 and depending on upcoming new crop quality, could offer more blending opportunities than are currently available this fiscal year.

In the Grain business, volumes are still expected to exceed last year's levels given the larger export program. Margin, as you know, will be limited because of blending opportunities. Another factor that we believe may now impact margins this year is the mix between CWB and non-Board commodities. Last year, the Pool's Board-non-Board mix was 64/36. We now believe that the Pool's mix will more closely align with historical averages of 60/40. We do expect to handle more Board grains in the final six months of the year, however given the lack of movement to date, the Wheat Board has significant exports to fulfill to meet its numbers. As well, I should note that for fiscal 2007, we have secured similar grain volume insurance as part of our risk management efforts.

For Agri-food Processing, Can-Oat is gearing up for their expansion and we are extremely pleased with the continued demand for their products.

From capital structure perspective, our balance sheet is in good shape. On March 14, Standard & Poor's raised our corporate credit rating to 'B+' from 'B', with a stable outlook. They cited the Pool's strengthened balance sheet due to financial restructuring and improved earnings potential as the key reasons. DBRS also changed the trend on our debt to ‘positive’ from stable and said the trend reflects the Pool's significant progress in improving its credit risk profile in fiscal 2005.

Yesterday we announced to the market that we filed a preliminary prospectus for an offering in Canada of $150 million of senior unsecured notes. These notes will have a seven-year term. Pricing will be determined when the final prospectus is filed and we intend to use the proceeds to redeem the outstanding 12% senior subordinated notes.

That concludes my remarks. I would be pleased to take any questions you may have. Colleen I will turn the call over to you.

Colleen Vancha: Thank you very much, Mayo.

Thank you very much. Operator, if you could begin the Q and A.

Operator: Thank you. At this time, I would like to remind everyone, if you would like to ask a question, press star, then the number one on your telephone keypad. Again, that is star, then the number one on your telephone keypad.

Your first question is from David Newman of National Bank Financial.

David Newman: Good morning.

Mayo Schmidt: Good morning, how are you David?

David Newman: Very good, how are you?

Mayo Schmidt: Doing terrific, thank you.

David Newman: Good, just a couple of questions on the wheat and barley and the impact on margins. With wheat prices starting to rise and oil seeds, looks like they're rolling over a bit, do you believe the Board will step up its program and meet its target for the year?

Fran Malecha David, it's Fran Malecha. You're right, the commodity prices, certainly for wheat, have improved over the course of the last few months. We see that continuing with the dryness in the southern portions of the US and I think the Wheat Board has a very good chance to hit their numbers.

David Newman: Excellent, and just in terms of your actual – you're more land locked than, let's say from your peers. In terms of your program, do you find that you start moving more of the wheat and barley towards the latter part of the season? In other words, are you a second half movement versus let's say a first half?

Fran Malecha: I don't know if that's necessarily the case year in year out, but I think it'll certainly be the case this year.

David Newman: OK, very good, and canola, I mean, obviously much is being made of bio-diesel opportunity. How much of your shipments might go to Europe or are you able to identify how much of your canola shipments actually might be directed towards bio-diesel applications?

Mayo Schmidt: I would say that, you know, there's very little if any of our shipments that go to bio-diesel. I think it's an industry that's evolving. I think we certainly are looking at it in terms of future demand. I think there's probably some, from a government standpoint, some type of a benefit that needs to come in terms of tax savings or a subsidy to really make that industry grow in the future.

David Newman: OK.

Mayo Schmidt: But I think if that does happen you'll see more demand for bio-diesel plants springing up in Canada, and with Canada as a key market as well as the US and eventually Europe as well.

David Newman: Are there no other crops other than canola, which are actually, in terms of converting to bio-diesel, are actually a little more cost efficient?

Mayo Schmidt: I think it could be animal fats, those types of things that would be more cost effective but I think from a quality standpoint, in terms of the bio-diesel and its ability to flow through cold weather, the quality of canola is much higher than some of those other maybe cheaper commodities.

David Newman: OK. Very good. And looking into your inputs for this year in terms of the shift to wheat from canola, do you have a sense of any order of magnitude of what could mean – given let's say an 8% reduction in acreage, what that might mean to your inputs in terms of seed and fertilizers? Or just a sense of a wheat crop versus a canola crop, how much more is required for a canola crop versus a wheat crop in terms of seed and fertilizers? I know it's a tough question but.

Doug Weinbender: Doug Weinbender, I'm the VP of Agri-products. Generally speaking when we look at the amount of inputs per acre, on wheat we would spend about $30 to $50 and on canola $80 to about $110 per acre, so if you extrapolate that out you just have to take a look at the, you know, if there's an 8% decrease in the overall amount of canola acres, I think we were looking at 12.5 million acres at one point in time. If you took 8% off of that and extrapolated it out it would show you what the effect is overall to the industry.

David Newman: Excellent, excellent answer. And on your labour negotiations, Mayo, I mean, how is that going? Especially, you know, at the inland terminals and with the pension issue still sort of hanging over your head a bit. How are those labour negotiations actually faring?

Mayo Schmidt: We think they're progressing, as expected, keeping in mind that on the west coast it's a consortium of all the exporters in Vancouver. But certainly the pension issue is something the company's working to resolve and we certainly have what we believe is a strong position in that perspective and also obviously looking out at the best interests of our employees, so we don't expect any other significant issues coming out of the general labour negotiations. We've got a number of contracts to conclude, but it looks to be at this point in time in the normal course.

Operator: Thank you. Your next question is from Orin Baranowsky of BMO Nesbitt Burns.

Orin Baranowsky: Thanks a lot, just wanted to ask a question, two questions, one on the margin performance. A good recovery on the handling margins in the first quarter. I know there was a one time item related to contract you'd entered into. Was there any of that in the second quarter of last year or this year that pulled margins down, or was it largely just the mix between Board and non-Board grain?

Mayo Schmidt: Orin, it's just largely the mix between Board and non-Board grain.

Orin Baranowsky: And there wasn't any one time contracts that?

Fran Malecha: No.

Orin Baranowsky OK. Now, how much – on the Board side, was it largely a lot of grain moving on the feed quality, did that pull margins down as well too?

Fran Malecha: In the quarter, on the Board side, I would say that our movement was, on a percentage basis, a little higher in terms of barley than wheat. I think in the last half of the year you'll see – the barley program's pretty much done so that will mean the Board program will be primarily wheat and durum and our margins tend to be better on wheat and durum than they are on barley.

Orin Baranowsky: So we should expect to see margin improvements I guess in the second half of the year on the grain side?

Fran Malecha: I would say a slight improvement, yes.

Orin Baranowsky: OK. Then if we could switch to looking at the agri-products side, I guess the $5 million loss you mentioned, the higher bad debt reserve, how much of the $5 million was related to an increase in bad debt reserve and I guess you largely said that'll get reversed in later quarters?

Doug Weinbender: Bad debt portion was a significant portion of the loss – earnings difference from last year. We do expect that we will be picking some of that up before year end. The timing issue, as we mentioned in the comments, was one of the issue this year was there were extended terms for producers and that's just pushed everything back in the year.

Orin Baranowsky: Right. OK. And then maybe we can talk about your view – consolidation and I guess the company has rolled with the Conservative government. How do you see the Wheat Board playing out and then just views in general on the industry going forward?

Mayo Schmidt: The question, there could be a broad answer to that, but let me give you our view of it. This Conservative government has indicated there will be change. They want to get into the WTO prior to focusing on the Wheat Board. I certainly think in consultation with producers, they intend to make changes, whether that be to dual marketing or some adjustment. We've seen some adjustment over the years where we were involved of course in tendering to a high degree with a great degree of success, so we're looking to the government to be clear in the near future on what they intend to do in terms of the adjustment. I think I would say that we have confidence that we have the expertise to provide all the services, whether it be in the marketplace we're in today or in a dual market. So I don't see that in any way as an impediment to our success as a company. That's probably going to be an evolving process.

Orin Baranowsky: OK. And then I guess on consolidation, how do you see the company grow in the consolidation of the Canadian grain industry?

Mayo Schmidt: We really see the Pool in a couple of areas. One is due to our financial health, which we see is certainly very strong – we will continue to execute on the programs, which gives us certainly a lot more flexibility in the marketplace. I think as we stated over the last year, we certainly, in one fashion or another, intend to be a catalyst in the rationalization of the industry and we see that happening in a couple ways, whether it be through opportunities for us to grow our footprint to work with other players in the industry or certainly as the demand on the industry to be more efficient, load more 50 and 100 car trains. We clearly have a focus on loading 100 car trains and looking for the maximum efficiency in the marketplace. Recently the railroads have announced, at least one railroad, that they're going to increase their incentives for 100 car units, I think it was $1.00 a tonne, so we're staring to see that we're focusing on the 100 car trains. It does put a lot of pressure on anyone loading 25 car units or less as to whether they want to continue to operate those assets and as the cost of operating those less efficient, antiquated assets continue to mount. We believe that some of our competitors are going to reconsider the operation of those businesses.

Operator: Thank you. As a reminder, if you do have a question or a follow up question, please press star, then the number one on your telephone keypad.

Your next question is from Stefan Gagnon of Fonds Des Professionals. Mr. Gagnon, your line is live, please unmute and proceed with your question.

We'll move to the next question to Ronald Carr, a Private Investor.

Ronald Carr: Yeah, good morning gentlemen. I just had a question on your natural gas reduction program. Is that on schedule to be implemented?

Colleen Vancha: Are you speaking about the Can-Oat, the Can-Oat initiative?

Ronald Carr: Yes.

Colleen Vancha: Yes, I believe that it is on schedule but Karl Gerrand, the President of Can-Oat is here, if he could speak to that?

Karl Gerrand: Hi, thank you, yes, things are on schedule. We're in the middle of the design phase of the project. We're looking at equipment, pricing things out. Things look like they are well on schedule for implementation in May for completion in the fall of this year.

Ronald Carr: OK, that's all I had, thank you.

Operator; Thank you. Your next question is from Rupel Ruparelia of Heath Bridge.

Richard Tattersol: It's actually Richard Tattersol, Rupel's colleague. Three questions, any sort of indicative yield ranges on the new bond issues, is the first question?

Wayne Cheeseman: We believe we will achieve a significant reduction in our interest costs as a result of these initiatives but the final interest rate won't be determined until the prospectus is finalized.

Richard Tattersol: And when is that likely to be?

Wayne Cheeseman: Close in early April.

Richard Tattersol: And then two other questions. You've put some information on the pension, including the timing and what different people have said are the maximum liabilities. Can you tell me, is there any sort of additional information or timings that you could add colour on?

Wayne Cheeseman: Well I think the additional information we provided is that the deficit is now estimated at $43.5 million. We've indicated after almost two years of negotiations and discussions with the union that we believe we're at an impasse and our external legal advisors have indicated that if we're unable to reach a solution with respect of this particular issue, it's likely that the plan will be wound up, but to a large degree it's beyond our control. That's the update that we've provided in our second quarter release.

Richard Tattersol: OK and the final question. The fertilizer, the reference has been with yourself and Agricore - the high natural gas cost being the big input in fertilizer costs. What is the time lag between the gas price decline and then the drop in fertilizer price at the retail level for the producers?

Doug Weinbender: It's Doug Weinbender. Generally speaking, it's about 60 days for time lag; however, that can depend on what manufacturers have for inventories so if you take a look at the different times of the year that can vary by 30 days to 40 or 50 days.

Richard Tattersol: OK thank you.

Operator: Thank you. Your next question is from David Newman of National Bank Financial.

David Newman: Hi guys, just a couple of quick follow up questions. We're fading in and out as well; I think there's some phone difficulties here. Just in terms of the input, I mean obviously if natural gas rolls over, you know, the farmers, they need to apply it. Potash and phosphates, can they be bypassed this year because we're obviously seeing potash shipments being down. I know a lot of it is for export, but just in terms of farmers, you need to apply less of that?

Mayo Schmidt: They may try to cut back somewhat but there's not going to be a big change in what they do for their fertilization ingredient mixtures, so when they take a look at their blends between the phosphate, potash and the nitrogen, generally speaking they would go to a recipe after they do their soil testing and try to stick to that, so I don't see them cutting back on the phosphate and the potash.

David Newman: OK very good. And then just a quick one on the timing of the refinancing, just to bake into our models what, you know, a presumed cut in interest. When do you expect to have it completed?

Mayo Schmidt: We expect to have the refinancing completed in early April.

David Newman: Very good. Thanks gentlemen.

Operator: Thank you. For any further questions, please press star, then the number one, on your telephone keypad at this time.

Your next question is from Angela Hall of Regina Leader Post.

Angela Hall: Hi there, I just wanted to follow up – you were talking about the possibility of there being a dual market. Is there any preference on whether or not the government moves in that direction?

Mayo Schmidt: Well I think the important thing for us and for the industry is that the government in their process continues to communicate. It certainly – the change would not be just simply flip a switch. I think you look at the Winnipeg Commodity Exchange, you look at our businesses and those of our competitors. I think that we're all marketing companies, we're all transportation & logistics companies, so I don't see whatever the government's decision as creating any significant changes to us. We certainly view this as – I mean, our thoughts on it in terms of how we view it is we're looking for transportation efficiencies. How we get there I think is certainly going to be up to farmers and the Wheat Board in terms of what changes they might make, but we just see the industry is needing an increasingly significant ability to affect availability of equipment and the transportation corridors. When we're loading ships, it's important that we know when the boats are there, certainly because they're sitting on our – at our spout. What's important to us is we get the transportation to support those ships on a timely basis and of course, keep in mind that 60, 65 plus or minus percent of our volumes can be Wheat Board, but there's a lot of non-Board commodities out there that we manage as well.

Angela Hall: If I could just ask as well, there's a lot of talk about, as usual, the cash flow situation out there but it seems to be maybe a little more intense this year and a lot of talk about farmers not seeding as many acres and I guess is there any thoughts just sort of how it looks going into spring seeding here shortly?

Mayo Schmidt: We're certainly not seeing any trends related to producers not planting as many acres. I think if you look at the last five years, the last 20 year trends, the producers tend to continue to plant the same amount of acres. The fact that we had frost last year, rain impediments, I don't see that as being a long term issue. Certainly we've adjusted some of our reserves in accommodating some of the later payments, but as we look forward, as mentioned in the comments today, from '05 certainly meeting our expectations in terms of producers taking care of their receivables – or their payables.

Operator: Thank you. Your next question is from Orin Baranowsky of BMO Nesbitt Burns.

Orin Baranowsky: Thanks, just a quick follow up. I wonder if maybe you can provide an update on the Can-Oat expansion. How much of the $12 million has been spent to date, I guess if any, and I guess when do you expect it to be completed?

Karl Gerrand: Our completion date remains as originally announced, which is February of 2007. So far to date, our efforts have been spent on engineering and conceptual design and we're in the various processes of tender issuance so to this point, it's all been engineering and conceptual design cost.

Orin Baranowsky: So a lot of the $12 million will be kind of back half loaded?

Karl Gerrand: Absolutely.

Orin Baranowsky: OK thanks a lot.

Operator: Thank you, I am currently showing no further questions. I would like to hand the floor back to management for any closing comments.

Colleen Vancha: Thank you very much Operator. We do apologize for the technical difficulties - it's on our end here but I do want to thank everyone for joining us today on the call. We have recorded the call and you will be able to access the replay at 1-877-519-4471. Thanks again. Bye bye.

Operator; Thank you. This does conclude today's teleconference. You may now disconnect your line and have a wonderful day.

Colleen Vancha: Thank you very much for joining us today for the call. The call has been recorded and you may call 1-877-519-4471.