

AUDITORS' REPORT TO THE SHAREHOLDERS OF SASKATCHEWAN WHEAT POOL INC.

We have audited the consolidated balance sheets of Saskatchewan Wheat Pool Inc. as at July 31, 2006 and 2005 and the consolidated statements of earnings and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at July 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Regina, Saskatchewan
October 4, 2006

Deloitte & Touche LLP
Chartered Accountants

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Saskatchewan Wheat Pool Inc. is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and management's discussion and analysis. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts based on management's informed judgements and estimates. Financial information contained in management's discussion and analysis is consistent with the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal accounting controls has been established to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that assets are safeguarded. An internal audit function evaluates the effectiveness of internal controls and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control systems. The Audit Committee is composed of independent directors who are not employees of the Corporation. The Audit Committee is responsible for reviewing the consolidated financial statements and management's discussion and analysis and recommending them to the Board of Directors for approval. To discharge its duties the Audit Committee meets regularly with management, internal audit and Deloitte & Touche LLP to discuss internal controls, accounting and financial reporting processes, audit plans and financial matters. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Deloitte & Touche LLP is responsible for auditing the consolidated financial statements and expressing their opinion thereon and their report is presented separately. The external auditors have full and free access to, and meet regularly with, management and the Audit Committee.



Mayo M. Schmidt
Chief Executive Officer



Wayne G. Cheeseman
Chief Financial Officer

October 12, 2006

**SASKATCHEWAN WHEAT POOL INC.
CONSOLIDATED BALANCE SHEETS**

(in thousands) AS AT	July 31, 2006	July 31, 2005
ASSETS		
Current Assets		
Cash	\$ 5,071	\$ 2,074
Cash in trust (Note 15b)	508	771
Short-term investments (Note 4)	104,892	79,264
Accounts receivable (Note 5)	123,176	127,102
Inventories (Note 6)	142,925	117,416
Prepaid expenses and deposits	13,074	20,737
Future income taxes (Note 22c)	772	78
	390,418	347,442
Investments (Note 7)	4,904	5,437
Property, Plant and Equipment (Note 8)	255,552	251,489
Other Long-Term Assets (Note 9)	20,605	14,822
Future Income Taxes (Note 22c)	102,551	102,670
	\$ 774,030	\$ 721,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank indebtedness (Note 10)	\$ 13,238	\$ 8,060
Short-term borrowings (Note 11)	-	392
Members' demand loans (Note 12)	18,965	21,476
Accounts payable and accrued liabilities (Note 13)	129,940	115,319
Long-term debt due within one year (Note 14)	8,890	5,461
	171,033	150,708
Long-Term Debt (Note 14)	101,917	148,928
Other Long-Term Liabilities (Note 15)	37,616	37,424
Future Income Taxes (Note 22c)	2,034	3,559
	312,600	340,619
Shareholders' Equity		
Share capital (Note 16)	502,760	439,485
Contributed surplus	308	243
Retained earnings (deficit)	(41,638)	(58,487)
	461,430	381,241
	\$ 774,030	\$ 721,860

Commitments, contingencies and guarantees (Note 27).

On behalf of the Board of Directors



Terry Baker
Director



Harold Milavsky
Director

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

(in thousands) FOR THE YEAR ENDED	July 31, 2006	July 31, 2005
Sales and Other Operating Revenues	\$ 1,580,237	\$ 1,385,730
Cost of Sales and Expenses		
Cost of sales and operating expenses	1,441,116	1,260,496
Selling and administrative expenses	56,654	54,704
Amortization	27,727	26,460
Provision for pension settlement (Note 19b)	15,000	-
	1,540,497	1,341,660
Earnings Before Interest and Taxes	39,740	44,070
Financing Expenses		
Interest expense (Note 21a)	21,054	37,050
Expenses associated with the redemption of the Senior Subordinated Notes (Note 21b)	11,209	-
Earnings Before Corporate Taxes	7,477	7,020
Corporate tax expense (Note 22a)	14,321	3
(Loss) Earnings From Continuing Operations	(6,844)	7,017
Net Recoveries From Discontinued Operations (Note 20)	7,375	5,072
Net Earnings	531	12,089
Retained Earnings (Deficit), Beginning of Year	(58,487)	(19,221)
Future income tax - adjustment (Note 22c)	17,999	15,578
Future income taxes - costs of recapitalization	830	4,742
Future income taxes - other items related to recapitalization	-	(11,102)
Share recapitalization costs (Note 16)	(2,511)	(12,992)
Share recapitalization inducement premium (Notes 14d and 16)	-	(33,846)
Accretion of equity component of Convertible Subordinated Notes (Notes 16b and 17)	-	(13,735)
Retained Earnings (Deficit), End of Year	\$ (41,638)	\$ (58,487)
Basic and Diluted Earnings (Loss) Per Share (Note 16b)		
From Continuing Operations	\$ (0.08)	\$ (1.44)
Net Earnings (Loss)	\$ 0.01	\$ (1.26)

SASKATCHEWAN WHEAT POOL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands) FOR THE YEAR ENDED	July 31, 2006	July 31, 2005
Cash From (Used in) Operating Activities		
(Loss) Earnings from continuing operations	\$ (6,844)	\$ 7,017
Add (deduct) items not involving cash and / or operations		
Amortization	27,727	26,460
Future income tax provision (recovery) (Note 22a)	12,595	(1,503)
Provision for pension settlement (Note 19b)	15,000	-
Post employment benefit (credit) expense (Note 19a)	(3,334)	1,107
Non-cash financing expenses (Note 21a and 21b)	11,761	15,361
Gain on sale of property, plant and equipment (Note 23)	(3,272)	(714)
Other items	116	(1,069)
Cash flow from continuing operations	53,749	46,659
Changes in non-cash working capital items		
Accounts receivable	15	40,098
Inventories	(25,509)	(12,441)
Accounts payable	(2,429)	(36,476)
Prepaid expenses and deposits	7,663	(10,858)
Changes in non-cash working capital - continuing operations	(20,260)	(19,677)
Cash from operating activities - continuing operations	33,489	26,982
Cash from discontinued operations	17,509	960
Cash from operating activities	50,998	27,942
Cash From (Used in) Financing Activities		
Proceeds of long-term debt	100,000	100,000
Repayment of long-term debt	(153,653)	(185,440)
Repayment of short-term borrowings	(392)	(1,109)
Repayment of other long-term liabilities, net	(972)	(646)
(Repayment) proceeds of members' demand loans	(2,511)	2,785
Repayment of members' Class A Shares	-	(524)
Increase in share capital	63,275	150,125
Equity costs	(3,070)	(12,406)
Debt refinancing cost	(2,808)	(8,939)
Cash (used in) from financing activities	(131)	43,846
Cash From (Used in) Investing Activities		
Property, plant and equipment expenditures	(29,985)	(12,865)
Proceeds on sale of property, plant and equipment	3,739	1,543
Decrease in cash in trust	263	405
Decrease in investments	363	45
Increase in other long-term assets	(1,800)	(1,001)
Cash used in investing activities	(27,420)	(11,873)
Increase in Cash and Cash Equivalents	23,447	59,915
Cash and Cash Equivalents, Beginning of Year	73,278	13,363
Cash and Cash Equivalents, End of Year	\$ 96,725	\$ 73,278
Cash and cash equivalents consist of:		
Cash	\$ 5,071	\$ 2,074
Short-term investments	104,892	79,264
Bank indebtedness	(13,238)	(8,060)
	\$ 96,725	\$ 73,278
Supplemental disclosure of cash paid during the period from continuing operations:		
Interest paid	\$ 20,847	\$ 23,386
Income taxes paid, net	\$ 1,676	\$ 744

SASKATCHEWAN WHEAT POOL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

Saskatchewan Wheat Pool Inc. (the company), a corporation formerly constituted by a special act of the Saskatchewan legislature, and now continued under the Canada Business Corporations Act, is a publicly traded, vertically integrated Canadian agri-business. The continuance became effective March 31, 2005, and is described in more detail in Note 14d and Note 16. Business operations include three reporting segments: Grain Handling and Marketing, Agri-products and Agri-food Processing.

The Grain Handling and Marketing segment includes 42 high throughput terminals and six specialty crop cleaning and handling facilities strategically located in the prime agricultural growing regions of Western Canada. This segment also includes two wholly owned port terminal facilities located in Vancouver, British Columbia and Thunder Bay, Ontario, and an ownership interest in an export facility in Prince Rupert, British Columbia. Activity in this segment consists of the collection of grain through the company's primary elevator system, shipping to inland or port terminals, cleaning of grain to meet regulatory specifications, and sales to domestic or export markets. Earnings in the Grain Handling and Marketing segment are volume driven and are derived primarily from tariffs charged to producers for elevation and cleaning of Canadian Wheat Board grains and from the sales of Non-Board grains. Revenue is also derived through grain handling, blending, drying, storage and other ancillary services as well as the sale of by-products.

The Agri-products segment includes an ownership interest in a fertilizer manufacturer / distributor and a retail network of 100 retail locations throughout Western Canada. Agri-product sales lines include fertilizer, crop protection products, seed and seed treatments, and equipment.

The Agri-food Processing segment includes the manufacture and marketing of valued-added products associated with oats and malt barley. Wholly owned subsidiary Can-Oat Milling maintains plants in Portage la Prairie, Manitoba, Martensville, Saskatchewan and Barrhead, Alberta, with the majority of its products exported. At its plant located in Biggar, Saskatchewan, affiliate Prairie Malt Limited processes malt barley into malt for domestic and export markets.

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 with the fourth quarter (May to July) traditionally being the strongest quarter for the company, primarily as a result of sales activity in the Agri-products segment. Agri-product sales peak in the fourth quarter when crops are seeded. To a lesser extent sales of crop protection products and fertilizer occur in the first quarter (August to October), as producers prepare land in anticipation of spring seeding. Earnings in the other segments are generally consistent from quarter-to-quarter. Factors impacting this consistency are primarily related to weather and include crop quality, the timing of harvest, seeding, and winter facility closures, as well as timing of export programs and market prices.

2. BASIS OF PRESENTATION

The company was subject to a financial reorganization with an effective date of January 31, 2003. The company 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.

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.

3. ACCOUNTING POLICIES

The company's accounting policies are in accordance with Canadian GAAP. The following accounting policies are considered to be significant:

a) Principles of Consolidation

These consolidated financial statements include the operations of the company, its controlled subsidiaries and its proportionate share of the assets, liabilities, revenues and expenses of joint ventures, which are jointly controlled. All significant inter-company balances and transactions, including profits in inventories, have been eliminated.

The company's principal subsidiaries/affiliates are as follows:

Subsidiary/Affiliate Name	Ownership %	Accounting Method
Can-Oat Milling	100%	Consolidation
Prairie Malt Limited	42.4%	Proportionate Consolidation
Western Co-operative Fertilizers Limited	43%	Proportionate Consolidation
Pacific Gateway Terminal Limited (PGTL) ¹	50%	Proportionate Consolidation

¹ Subject to final regulatory approval, the company and James Richardson International Limited (JRI) began this joint venture on July 11, 2005. PGTL is a Vancouver grain terminal operation formed on the premise that the company's and JRI's existing, adjacent Vancouver grain terminals would be jointly operated. The joint venture is operating under a temporary order from the Competition Bureau. The issue is expected to be brought before a federal Competition Tribunal for resolution in the spring of 2007.

b) Revenue Recognition

Revenues from grain handling are recognized upon shipment of grain commodities to the customer. Transactions in which the company acts as an agent for the Canadian Wheat Board (CWB) are recorded on a net basis upon performance of service, with only the amount of the CWB tariff included in revenue. Service revenues from grain marketing are recognized when the services are performed. Revenues from agri-products include product sales revenue which are recognized when the customer receives the products and service revenue such as equipment rentals and custom application of product which are recognized when the service is performed. Revenue from agri-food processing associated with the sale of value-added food processing products is recognized upon shipment to the customer. Other agri-food processing revenues are recognized when services are performed.

c) Cash and Cash Equivalents

Cash and cash equivalents include cash, short-term investments and bank indebtedness. Bank indebtedness consists primarily of current outstanding cash tickets and cheques. All components are liquid with an original maturity of less than three months. Funds on deposit within joint ventures may not be immediately available to the company.

d) Inventories

Grain inventories in the Grain Handling and Marketing segment include both hedgable and non-hedgable commodities. Hedgable grain inventories are valued on the basis of closing market quotations less freight and handling costs and also reflect gains and losses on open grain purchase and sale contracts. Non-hedgable grain inventories are valued at the lower of cost and net realizable value. Agri-products and other inventories which

consist of raw materials, work in progress and finished goods are valued at the lower of cost and net realizable value.

e) Investments

The company accounts for its investments in affiliated companies over which it has significant influence, using the equity basis of accounting, whereby the investments are initially recorded at cost, and subsequently adjusted to recognize the company's share of earnings or losses of the investee companies and reduced by dividends received. Short-term investments are recorded at the lower of cost and market. Other investments are recorded at cost.

The company's non-controlling interest in Prince Rupert Grain Terminal (PRG) is recorded at a nominal amount since the value of the debt exceeds the depreciated value of the terminal. At July 31, 2006, PRG has approximately \$326 million in loans due to a third party. The loans mature in 2015 (\$212 million) and 2035 (\$114 million) and are secured by the terminal without recourse to the consortium members.

f) Property, Plant and Equipment and Amortization

As a result of the financial reorganization on January 31, 2003 and the application of fresh start accounting, property, plant and equipment was adjusted to fair value. Additions to property, plant and equipment are recorded at cost, which includes interest costs incurred on construction of major new facilities prior to the facilities becoming available for operation, less amortization. The company reviews the carrying value of its property, plant and equipment whenever there is a change in circumstance that suggests the carrying value may not be recoverable - any resulting write-downs are charged to earnings. Amortization is provided for property, plant and equipment over their estimated useful lives using primarily the straight-line method. The rates used are as follows:

Sites, trackage and paving	0 - 13%
Buildings	3 - 20%
Machinery and equipment	5 - 50%
Vehicles	10 - 30%

g) Corporate Income Taxes

The company follows the liability method of tax allocation in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period which includes the substantively enacted date. Future income tax assets are net of a valuation allowance to reflect an amount that the company considers is more likely than not to be realized.

h) Deferred Financing Costs

Costs incurred to obtain financing are deferred and amortized over the term of the associated debt. Amortization is a non-cash charge to interest expense.

i) Deferred Revenue

The majority of deferred revenue relates to payments from producers pursuant to grain storage licence agreements. The deferred revenue is amortized into revenue over 40 years to match the approximate life of the related grain storage asset.

j) Post Employment Benefits

The cost of defined benefit pension plans and retirement allowance benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, terminations and retirement ages of plan members. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past

service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The cost of pension benefits for defined contribution plans is charged to operations as contributions become due.

k) Financial and Other Instruments

The company uses derivative financial and other instruments to manage its exposure to market risks relating to interest rates, commodity prices and foreign currency exchange rates. The company does not use derivative financial instruments for speculative trading purposes.

i) Foreign Exchange Contracts - The company enters into forward foreign exchange and futures contracts to offset and manage exposure to foreign currency exchange risk resulting from transactions denominated in foreign currencies. Certain areas of the company not related to the handling and marketing of grain follow the Hedging Relationships guidance of the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 13. Under hedge accounting the gains, losses, revenues and expenses associated with a hedged item and the hedging instrument are recognized in income in the same period. The company regularly assesses hedging transactions to ensure they are highly effective in offsetting changes in fair values or cash flows of hedged items. In the remaining areas of the company forward foreign exchange and futures contracts are marked-to-market and unrealized gains and losses are recognized in income in the period in which they occur.

ii) Commodity Futures Contract Transactions - The company is involved in the purchase, sale and processing of raw agricultural commodities. Agricultural commodities are subject to price fluctuations due to numerous unpredictable factors that may create price risk. The company enters into derivative contracts, primarily exchange-traded futures and options, with the objective of managing exposure to adverse price movements in agricultural commodities. The unrealized gains and losses for commodity futures contracts are recognized in income in the period in which they occur.

l) Foreign Currency Transactions

Monetary assets and liabilities are translated into Canadian dollars at the rate in effect at the balance sheet date; non-monetary items are translated at the rate in effect on the transaction date. Exchange gains or losses arising from translations are recognized in income in the period in which they occur.

m) Accretion

i) Senior Subordinated Notes and Convertible Subordinated Notes - At the time of the January 31, 2003 restructuring the company recorded both the Senior Subordinated Notes and the Convertible Subordinated Notes at their estimated fair value. These estimated fair values represented a substantial discount to the face values of these Notes.

The accretion of the Senior Subordinated Notes and the debt component of the Convertible Subordinated Notes were recorded as a non-cash charge to interest expense, whereas the accretion of the equity component of the Convertible Subordinated Notes was recorded as a non-cash charge to retained earnings.

ii) Asset Retirement Obligations (ARO) - Accretion is recorded as an increase to the carrying amount of the ARO due to the passage of time with an offsetting non-cash charge to operating costs (see Note 3p).

n) Stock-Based Compensation Plans

The company has four stock-based compensation plans, which are described in Notes 16a and 18. The company accounts for its grants under those plans in accordance with the fair value based method of accounting for stock-based compensation.

The company expenses stock options over the vesting period of options granted, based on the fair value method as determined by the Black-Scholes pricing model, and records the offsetting amounts as a credit to contributed surplus.

Deferred share units, performance share units and restricted share units are amortized over their vesting periods and re-measured at each reporting period, until settlement, using the quoted market value.

o) 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. Significant areas where management judgement was applied include: the provision for loan losses associated with the Agri-products segment, asset retirement obligations, accounting for corporate income taxes including the valuation of future tax assets and post employment benefits including the provision associated with the Saskatchewan Wheat Pool/Grain Services Union Pension Plan.

p) Changes in Accounting Policies

Asset Retirement Obligations - Effective August 1, 2004, the company adopted the new CICA standard regarding ARO (CICA 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 GAAP, 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. 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, and
- negligible impact on earnings for both fiscal 2005 and fiscal 2004.

4. SHORT-TERM INVESTMENTS

	2006	2005
Saskatchewan Wheat Pool Inc.	\$ 77,955	\$ 29,000
Subsidiaries and proportionate share of joint ventures	26,937	50,264
	\$ 104,892	\$ 79,264

5. ACCOUNTS RECEIVABLE

	2006	2005
Trade accounts, net	\$ 67,767	\$ 59,553
Canadian Wheat Board	37,227	47,994
Other accounts	18,182	19,555
	\$ 123,176	\$ 127,102

6. INVENTORIES

	2006	2005
Grain	\$ 55,872	\$ 58,485
Agri-products	74,974	47,591
Agri-food Processing	12,079	11,340
	\$ 142,925	\$ 117,416

7. INVESTMENTS

	2006	2005
Investments in significantly influenced companies – equity method	\$ 1,435	\$ 2,148
Other long-term investments – cost method	3,469	3,289
	\$ 4,904	\$ 5,437

8. PROPERTY, PLANT AND EQUIPMENT

	2006	2006 Accumulated Amortization	2005	2005 Accumulated Amortization
Sites, trackage and paving	\$ 11,113	\$ 1,553	\$ 9,978	\$ 979
Buildings	117,544	15,690	115,580	11,250
Machinery and equipment	198,810	69,965	181,632	48,353
Vehicles	169	100	113	83
Construction in progress	15,224	-	4,851	-
	342,860	\$ 87,308	312,154	\$ 60,665
Accumulated amortization	(87,308)		(60,665)	
Net book value	\$ 255,552		\$ 251,489	

Amortization of property, plant and equipment related to continuing operations for the year ended July 31, 2006 is \$27.0 million (2005 - \$26.1 million).

9. OTHER LONG-TERM ASSETS

	2006	2006 Accumulated Amortization	2005	2005 Accumulated Amortization
Deferred pension assets (Note 19)	\$ 9,395	\$ -	\$ 5,260	\$ -
Deferred financing costs	7,533	2,207	4,659	518
Other	7,093	1,209	5,973	552
	24,021	\$ 3,416	15,892	\$ 1,070
Accumulated amortization	(3,416)		(1,070)	
Net book value	\$ 20,605		\$ 14,822	

Deferred financing costs are amortized over the term of the associated debt.

Amortization of deferred financing costs of \$1.7 million (2005 – \$0.5 million) is included in interest expense. Amortization of other assets of \$0.7 million (2005 - \$0.4 million) is included in amortization expense.

10. BANK INDEBTEDNESS

	2006	2005
Saskatchewan Wheat Pool Inc.	\$ 13,238	\$ 6,030
Subsidiaries and proportionate share of joint ventures	-	2,030
	\$ 13,238	\$ 8,060

11. SHORT-TERM BORROWINGS

	2006	2005
Saskatchewan Wheat Pool Inc.	\$ -	\$ -
Subsidiaries and proportionate share of joint ventures	-	392
	\$ -	\$ 392

The company, as part of a refinancing initiative, replaced its asset backed revolving credit facility on March 11, 2005, with a new three-year \$250 million senior secured asset backed revolving loan with a syndicate of financial institutions. The facility matures in March 2008 and is secured by the assets of the company. In the fourth quarter of fiscal 2006, the interest rate on this facility was reduced by 1% from the previous level. Interest is currently payable monthly at prime plus 0.5%.

At July 31, 2006, the company had outstanding letters of credit and similar instruments of \$35.1 million related to operating an agri-business (2005 - \$31.1 million). These instruments effectively reduce the amount of cash that can be drawn on the revolving credit facility.

At July 31, 2006, availability under the asset backed revolving loan facility was \$59.5 million (2005 - \$42.2 million).

Subsidiaries' and proportionate share of joint ventures' short-term borrowings consist of bank operating loans, which are secured by a first charge against present and future assets. The company does not guarantee, nor does it have responsibility for, the repayment of the subsidiaries' or joint ventures' loans.

12. MEMBERS' DEMAND LOANS

Members' demand loans are unsecured funds loaned to the company by non-institutional investors and employees. At July 31, 2006, the loans bear interest at 3.6% (2005 - 3.6%).

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2006	2005
Trade accounts payable	\$ 40,286	\$ 39,022
Trade deferred cash tickets	21,995	24,277
Accrued liabilities	45,348	38,315
Provision for pension settlement (Note 19b)	15,000	-
Other accounts payable	7,311	13,705
	\$ 129,940	\$ 115,319

At July 31, 2006, certain trade payables and related inventory with agri-products suppliers were subject to a purchase money security interest in the aggregate of \$0.1 million (2005 - \$4.6 million).

14. LONG-TERM DEBT

	2006 Weighted Average Interest Rate*	2006 Carrying Value	2005 Weighted Average Interest Rate*	2005 Carrying Value
Senior Unsecured Notes (a)	8%	\$ 100,000		\$ -
Senior Secured Extendible Notes (b)		-		-
Senior Subordinated Notes (c)		-	8%	139,929
Convertible Subordinated Notes (d)		-		-
Members' term loans (e)	6.4%	5,276	7.2%	4,823
Sub-total		105,276		144,752
Subsidiaries' and proportionate share of joint ventures' secured debt (e):	5.2%	5,531	4.2%	9,637
Total consolidated long-term debt		110,807		154,389
Less portion due within one year:				
Members' term loans		3,359		1,354
Subsidiaries' and proportionate share of joint ventures' debt		5,531		4,107
Long-term debt due within one year		8,890		5,461
Total long-term debt		\$ 101,917		\$ 148,928

*Weighted average interest rates are based on the face value of the debt instrument.

a) Senior Unsecured Notes

- On April 6, 2006, the company completed the offering of \$100 million of 8% Senior Unsecured Notes due April 8, 2013. Net proceeds from the offering assisted in funding the early redemption of the 12% Senior Subordinated Notes on May 5, 2006 (see Note 14c).
- The fair market value of the Senior Unsecured Notes at July 31, 2006, was approximately \$102.4 million based upon the quoted market price.

b) Senior Secured Extendible Notes

- The company, as part of a refinancing initiative, replaced its Senior Secured Bank Term Loan, effective March 14, 2005, with \$100 million of Floating Rate Senior Secured Extendible Notes (the Notes) with an institutional investor. These Notes were secured by a first charge on the company's fixed assets and a second charge on working capital. Interest was payable monthly at LIBOR plus 6.5%. On June 7, 2005, the company prepaid the Notes without penalty.

c) Senior Subordinated Notes

- On May 5, 2006, the Senior Subordinated Notes were redeemed at the full early redemption price of \$153 million (see Note 21b).
- At the time of the January 31, 2003 restructuring, the Senior Subordinated Notes were recorded at estimated fair value. The company was accreting up to their \$150 million face value through monthly present value adjustments (accretion) to the Senior Subordinated Notes with a corresponding non-cash charge to increase interest expense.
- Interest was payable monthly into a trust and distributed quarterly. Prior to July 31, 2005, interest was at 8% of the face value, thereafter, interest was at 12%.

d) Convertible Subordinated Notes (see Note 16)

The Convertible Subordinated Notes were converted on March 31, 2005 into a new class of common shares. The remainder of the points in this section provide some of the historical background applicable to the comparative Convertible Subordinated Notes information in these statements.

- 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. The company was 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 was being accreted such that the value as of November 29, 2008, (the day before the company's conversion right) would reflect the face value and accrued interest not paid in cash of the remaining, unconverted, Convertible Subordinated Notes. This accretion was recorded as a reduction of retained earnings (deficit).
- As part of the March 31, 2005 conversion, the former Class B Shares were consolidated at a rate of one new common share for 20 Class B Shares and the Convertible Subordinated Noteholders agreed to exchange their Notes at the rate of 131.58 new common shares per \$1,000 of principal. Prior to March 31, 2005, the Convertible Subordinated Notes were convertible by the holder into Class B non-voting shares of the company at the pre 1:20 share consolidation rate of approximately 2,227.2 shares (111.36 shares post conversion) per \$1,000 of Note principal at any time prior to November 30, 2008. Under the new conversion rate the Convertible Subordinated Noteholders incrementally received approximately 3.5 million more shares than under the former conversion rate. These incremental shares were valued at \$33.8 million and are reflected as part of the share conversion outlined in Note 16, as well as an offsetting charge to retained earnings.
- A continuity of the debt component of the Convertible Subordinated Notes is:

Convertible Subordinated Notes – July 31, 2004	\$ 27,735
Interest accretion	2,863
Convertible Subordinated Notes – March 31, 2005	30,598
Refinance conversion	(30,598)
Convertible Subordinated Notes – July 31, 2005 and July 31, 2006	\$ -

e) Other

- Members' term loans are unsecured and consist of one-year to seven-year loans with non-institutional investors and employees. Interest is payable semi-annually at interest rates which vary from 4.0% to 9.0%. The fair market value of members' term loans at July 31, 2006 was approximately \$5.4 million (2005 - \$5.1 million).
- The subsidiaries' and the proportionate share of joint ventures' debts bear interest at variable rates. The debts mature in 2007. The debts are secured by certain assets and some are subject to meeting certain covenants. The fair market value at July 31, 2006 of subsidiaries' and the proportionate share of joint ventures' debts was approximately \$5.5 million (2005 - \$9.6 million).
- The company does not guarantee nor does it have responsibility for the repayment of the subsidiaries' or joint ventures' debts.

- The maturities of long-term debt are as follows:

	Saskatchewan Wheat Pool Inc.	Subsidiaries and Proportionate Share of Joint Ventures	Total
2007	\$ 3,359	\$ 5,531	\$ 8,890
2008	620	-	620
2009	389	-	389
2010	500	-	500
2011	350	-	350
Subsequent Years	100,058	-	100,058
	\$ 105,276	\$ 5,531	\$ 110,807

15. OTHER LONG-TERM LIABILITIES

	2006	2005
Asset retirement obligations (a)	\$ 9,956	\$ 11,477
Deferred revenue	8,032	9,182
Retirement allowances (Note 19)	5,701	5,680
Loan loss provision (b)	3,808	4,931
Pension (Note 19)	3,653	3,734
Other	6,466	2,420
	\$ 37,616	\$ 37,424

- a) In 1987, a joint venture which manufactured phosphate and nitrate fertilizers closed two of its facilities. The asset retirement obligations represents the company's proportionate share of the best estimate by management of the joint venture of the legal obligations that it would incur during the reclamation process. Reclamation involves the demolition of the manufacturing facilities and the reclamation of the phosphogypsum stacks. Uncertainty exists regarding the estimation of future decommissioning and reclamation costs.

At July 31, 2006, the company's proportionate share of the undiscounted cash flow required to settle the asset retirement obligations is approximately \$13.2 million, which is expected to be settled over the 2007 through 2014 period. The credit adjusted risk-free rates at which the estimated cash flows have been discounted, range from 4.00% to 5.15%.

- b) Under the terms of an agreement, a financial institution provides credit for the purchase of crop inputs to producer customers of the company. 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 program 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 11 months following the due date of the producers' loan. When the company remits payments for delinquent accounts 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 to the benefit of the company. The company expects that loan losses will not differ significantly from those provided for in these financial statements.

	2006	2005
Producer Due Date - January 31	Company Reimbursement Date - December 31	Producer Balance Outstanding
2004 loan program	2005	2005
2005 loan program	2006	2006
2006 loan program	2007	2007
		\$ -
		6,047
		182,315
		\$ 188,362
		\$ 10,980
		174,002
		-
		\$ 184,982

	2006	2005
Total company provision, net of loan loss share	\$ 3,251	\$ 7,401
Portion due within one year	(969)	(4,082)
Long-term portion, net of loan loss share	\$ 2,282	\$ 3,319

16. SHARE CAPITAL

COMMON VOTING SHARES

Authorized

Unlimited Common Voting Shares

CLASS A VOTING SHARES

Previously Authorized until March 31, 2005

Unlimited Class A Voting Shares par value \$25

Class A Voting Shares were held by farmer-members and were redeemable at the option of the shareholder at their par value.

CLASS B NON-VOTING SHARES

Previously Authorized until March 31, 2005

Unlimited Class B Non-voting Shares

The following table summarizes the Common Voting, Member Class A Voting and Class B Non-voting share capital for the years ended July 31, 2006 and July 31, 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - In thousands of Canadian dollars, except as noted

	Common voting shares		Class A voting shares		Class B non-voting shares	
	Number ¹	Amount	Number ¹	Amount	Number ¹	Amount
Balance, July 31, 2004	-	\$ -	71,326	\$ 1,783	11,610,938	\$ 81,287
Net redemptions/conversions	-	-	(20,947)	(524)	683,913	5,611
Management options exercised	-	-	-	-	2,606	16
Conversion of Class A shares	182,371	1,259	(50,379)	(1,259)	-	-
Conversion of Class B shares	12,297,457	86,914	-	-	(12,297,457)	(86,914)
Conversion of Convertible Subordinated Notes	22,591,731	201,203 ²	-	-	-	-
Management options exercised	500	3	-	-	-	-
Share issuance	46,762,078	150,106	-	-	-	-
Balance, July 31, 2005	81,834,137	\$ 439,485	-	\$ -	-	\$ -
Share issuance	6,700,000	50,250	-	-	-	-
Share issuance – over-allotment	670,000	5,025	-	-	-	-
Share issuance – private placement	1,046,627	8,000	-	-	-	-
Balance, July 31, 2006	90,250,764	\$ 502,760	-	\$ -	-	\$ -

¹Number of shares are not shown in thousands

²Dollar value includes: Convertible Subordinated Notes

Equity component	\$ 136,759
Debt component	30,598
Inducement premium	<u>33,846</u>
	<u>\$ 201,203</u>

2005

On February 7, 2005, the company's Board approved a proposed recapitalization of its Class A Voting Shares, Class B Non-voting Shares and Convertible Subordinated Notes and a subsequent rights offering to all Common Shareholders. On February 21, 2005, the required majority of delegates, representing the former Class A Shareholders, approved the company's recapitalization plan. Through separate meetings on March 23, 2005, both the former Class B Non-voting Shareholders and Convertible Subordinated Noteholders approved the recapitalization plan. The recapitalization plan included:

- The continuance of the company as a business corporation under the Canada Business Corporations Act involving the consolidation of the Class A Voting Shares and the Class B Non-voting Shares of the company into one new class of common shares. The Class A Shareholders were entitled to receive 3.62 new common shares, or \$25 in cash, while the Class B Shareholders received one new common share for every 20 Class B Non-voting Shares they held.
- The early conversion of the company's Convertible Subordinated Notes into the new class of common shares. The Convertible Subordinated Notes were exchanged for 131.58 common shares per \$1,000 of principal.

On April 22, 2005, after the continuance, 35,071,559 rights were issued to the holders of all common shares of record. The rights were issued for nil consideration with an expiration date of May 24, 2005. Each right entitled the holder the right to purchase one and one-third additional common shares in the company at the discounted subscription price of \$3.21 per share.

On May 27, 2005, the company issued 46,762,078 common shares under the rights offering, generating gross proceeds of approximately \$150.1 million. The company has repaid in full the \$100 million of Floating Rate Senior Secured Extendible Notes with the proceeds from the share issuance. The remaining proceeds were used for general corporate purposes, primarily working capital for the purchase of grains, oilseeds and agri-products inventory.

The professional and other costs associated with the continuance and the rights offering were approximately \$13.0 million. In accordance with the capital nature of these recapitalization events, the associated costs have been reflected as a charge to shareholders' equity and reflected in the retained earnings (deficit) of the company.

2006

On April 5, 2006, the company issued 6,700,000 common shares as part of a \$50.25 million offering. On May 9, 2006, an additional \$5.025 million was raised and 670,000 common shares were issued related to an Over-Allotment Option granted to a syndicate of underwriters associated with the initial offering. Total underwriters' fees and other costs, associated with the offering were approximately \$2.5 million. In accordance with the capital nature of these transactions, the associated costs were reflected as a charge to shareholders' equity and reflected in the retained earnings (deficit) of the company. Net proceeds from the offering assisted in funding the early redemption of the 12% Senior Subordinated Notes on May 5, 2006 (see Note 14c).

A subscription agreement, on a private placement basis, closed on May 19, 2006, whereby 1,046,627 common shares were issued at a purchase price of \$8.0 million or \$7.6436 per common share.

a) Stock Options

Management Stock Option Plan - During fiscal 2004, this plan became inactive. Options previously granted under the Management Stock Option Plan were approved by the Board of Directors. To date, 187,475 shares have been allocated to the plan. Under this plan, options are exercisable in increments over a maximum of 10 years beginning on the first anniversary date of the option grant. Options granted under this plan primarily vest at a rate of 25% per year commencing on the first anniversary date of the grant.

The expense related to stock options is based on the fair value of options vested in the year, and is determined by the Black-Scholes option pricing model with the following assumptions: risk free rate 4.40% to 4.85%, dividend yield 0%, a volatility factor of the expected market price of the company's shares of 100, and a weighted average expected option life of five years. For the year ended July 31, 2006, \$0.1 million was expensed as stock-based compensation (2005 - \$0.1 million).

A continuity of the stock options is as follows:

	2006		2005	
	Number of Options ¹	Weighted Average Exercise Price ¹	Number of Options ¹	Weighted Average Exercise Price ¹
Outstanding, beginning of year	89,957	\$ 84.86	113,173	\$ 85.60
Granted	-	\$ -	-	\$ -
Exercised	-	\$ -	(3,106)	\$ 5.90
Cancelled	(1,533)	\$ 108.51	(20,110)	\$ 101.46
Outstanding, end of year	88,424	\$ 84.45	89,957	\$ 84.86
Options exercisable, end of year	81,353	\$ 90.42	72,164	\$ 99.01

¹ The exercise prices and number of options referred to above are not in thousands.

Of the outstanding stock options at July 31, 2006, 13% have an exercise price of \$6.50 or less; the remainder have an exercise price at, or greater than, \$31.00. Of the options exercisable at July 31, 2006, 7% have an exercise price of \$6.50 or less; the remainder have an exercise price at, or greater than, \$31.00. At July 31, 2006, the shares closed at \$7.78.

b) Earnings (Loss) Per Share

	2006	2005
Net earnings	\$ 531	\$ 12,089
Less: earnings (loss) from continuing operations	(6,844)	7,017
Recovery from discontinued operations (numerator – discontinued operations)	\$ 7,375	\$ 5,072
Earnings (loss) from continuing operations	\$ (6,844)	\$ 7,017
Share recapitalization inducement premium	-	(33,846)
Accretion of equity component of Convertible Subordinated Notes	-	(13,735)
Numerator – continuing operations	\$ (6,844)	\$ (40,564)
Net earnings	\$ 531	\$ 12,089
Share recapitalization inducement premium	-	(33,846)
Accretion of equity component of Convertible Subordinated Notes	-	(13,735)
Numerator – net earnings (loss)	\$ 531	\$ (35,492)
Denominator for basic and diluted per share amounts:		
Weighted average number of shares outstanding	84,343	28,103
Basic and diluted earnings (loss) per share:		
Continuing operations	\$ (0.08)	\$ (1.44)
Discontinued operations	\$ 0.09	\$ 0.18
Net earnings (loss)	\$ 0.01	\$ (1.26)

In 2006, there is no dilutive effect from the exercise of options related to stock options plans. In 2005, there is no dilutive effect from the exercise of options related to stock option plans due to the effect of the share capital inducement premium and the accretion of the equity component of the Convertible Subordinated Notes.

17. CONVERTIBLE SUBORDINATED NOTES – EQUITY COMPONENT

As depicted in Notes 14d and 16, the Convertible Subordinated Notes were converted into Common Voting Shares on March 31, 2005.

Balance at July 31, 2004	\$ 128,635
Accretion charged to retained earnings	13,735
Conversions in the period ended March 31, 2005 with a face value of \$6.1 million	(5,611)
Balance at March 31, 2005	136,759
Recapitalization conversions with a face value of \$171.7 million into Common Voting Shares	(136,759)
Balance at July 31, 2005 and July 31, 2006	\$ -

18. STOCK-BASED COMPENSATION PLANS

The company has implemented three stock-based compensation plans: a deferred share unit plan (DSU) for independent directors and a restricted share unit plan (RSU) and a performance share unit plan (PSU) for designated executives. These plans replace cash based compensation plans. In addition the company has a management stock option plan, which became inactive during fiscal 2004 (see Note 16a).

a) Deferred Share Units

In fiscal 2006, the company began offering a DSU plan to independent directors. A DSU is a notional unit that reflects the market value of a single common share of the company. In this plan, 40% of each director's annual retainer is paid in DSUs. In addition, on an annual basis directors can elect to receive any percentage from 40% to 100% of their annual retainer and any additional fees for the immediately succeeding year in the form of DSUs. Each DSU fully vests upon award. The DSUs will be redeemed for cash, or for common shares of the company purchased on the open market, at the director's option upon a director leaving the Board. The redemption amount will be based upon the weighted average of the closing prices of the common shares of the company on the Toronto Stock Exchange for the last 20 trading days prior to the redemption date multiplied by the number of DSUs held by the director. 84,882 DSUs have been granted during fiscal 2006. The company recorded compensation costs related to outstanding DSUs of \$0.6 million for the year ended July 31, 2006.

b) Restricted Share Units

In fiscal 2006, the company provided each designated executive an annual grant of RSUs as part of their compensation. Each RSU represents one notional common share that entitles the participant to a payment of one common share of the company, purchased on the open market, or an equivalent cash amount at the company's discretion. RSUs vest at the end of a three-year period. Holders of RSUs have the option of converting to an equivalent number of DSUs 60 days prior to vesting. 160,875 RSUs have been granted during fiscal 2006. The company recorded compensation costs related to outstanding RSUs of \$0.4 million for the year ended July 31, 2006.

c) Performance Share Units

In fiscal 2006, the company provided each designated executive an annual grant of PSUs as part of their compensation. The performance objectives under the plan are designed to further align the interest of the designated executive with those of shareholders by linking the vesting of awards to EBITDA over the three-year performance period. The number of PSUs that ultimately vest, will vary based on the extent to which actual EBITDA matches budgeted EBITDA for the three-year period. Each PSU represents one notional common share that entitles the participant to a payment of one common share of the company, purchased on the open market, or an equivalent cash amount at the company's discretion. PSUs vest at the end of a three-year period. The final value of the PSUs will be based on the value of the company's stock at the end of the three-year period and the number of PSUs that ultimately vest. Vesting of PSUs at the end of the three-year period will be based on total EBITDA and whether the participating executive remains employed by the company at the end of the three-year vesting period. Holders of PSUs have the option of converting to an equivalent number of DSUs 60 days prior to vesting. As of July 31, 2006, 482,625 PSUs were held by the designated executive. The company recorded compensation costs related to outstanding PSUs of \$1.6 million for the year ended July 31, 2006.

19. POST EMPLOYMENT BENEFITS

a) Defined Benefit Plans

The company contributes to three defined benefit plans, which are based on years of service and final average salary: Hourly Employees' Retirement Plan (Hourly), Out of Scope Defined Benefit Pension Plan (OSDB), and Supplementary Executive Retirement Plan (SERP). The company is on a contribution holiday for the Hourly and OSDB plans due to income tax regulations relating to surpluses in these pension plans. These plans have bridged benefits that allow for early retirement. The plan assets of the Hourly and OSDB plans at July 31, 2006, are invested in the following asset classes: Canadian equities – 31%; Global equities – 32%; bonds – 30%; other – 7%. The SERP is unfunded and the employer makes contributions as the retirement benefits are paid. The unfunded balance of the SERP at July 31, 2006, is \$3.6 million (2005 - \$3.7 million).

The retirement allowance benefit is a closed benefit plan. Certain groups of the company's employees are eligible for a retiring allowance if, as of February 1, 2000, the employee had 15 or more years of service. Those employees currently qualifying for this plan will receive a lump-sum payment upon retirement based on a formula comprising years of service and salary in effect at retirement.

The consolidated information presented for 2006 in the table below is based on actuarial valuation results as of December 31, 2004, with extrapolations to July 31, 2006. Consolidated information presented for 2005 is based on actuarial valuation results as of December 31, 2004 with extrapolations to July 31, 2005. The projected accrued benefit actuarial cost method pro-rated on service is used for this valuation. The assets are valued at market value on July 31, 2006 and July 31, 2005. The effective date of the next required actuarial valuation is December 31, 2007.

	Pension Benefit Plans		Retirement Allowances	
	2006	2005	2006	2005
Plan Assets				
Fair value, at beginning of period	\$ 265,892	\$ 245,700	\$ -	\$ -
Actual return on plan assets	29,859	35,189	-	-
Employer contributions	267	270	313	239
Employees' contributions	262	252	-	-
Benefits paid	(15,652)	(15,519)	(313)	(239)
Fair value, at end of period	280,628	265,892	-	-
Accrued Benefit Obligation				
Balance, beginning of period	200,276	189,384	5,020	4,934
Current service cost	1,522	1,389	160	176
Interest cost	10,628	10,976	254	345
Benefits paid	(15,652)	(15,519)	(313)	(239)
Actuarial loss (gain)	(5,240)	14,046	(507)	(196)
Balance, end of period	191,534	200,276	4,614	5,020
Funded status-plan surplus (deficit)	89,094	65,616	(4,614)	(5,020)
Unamortized net actuarial gain	(35,318)	(17,010)	(1,087)	(660)
Accrued benefit asset (liability)	53,776	48,606	(5,701)	(5,680)
Valuation allowance	(47,786)	(46,818)	-	-
Accrued benefit asset (liability), net of valuation allowance	5,990	1,788	(5,701)	(5,680)
Add: accrued benefit liability of proportionately consolidated companies	(248)	(262)	-	-
Consolidated accrued benefit asset (liability), net of valuation allowance	\$ 5,742	\$ 1,526	\$ (5,701)	\$ (5,680)

The consolidated accrued benefit asset (liability), net of valuation allowance, is reflected in these statements as follows:

	Pension Benefit Plans		Retirement Allowances	
	2006	2005	2006	2005
Long-term assets (Note 9)	\$ 9,395	\$ 5,260	\$ -	\$ -
Long-term liabilities (Note 15)	(3,653)	(3,734)	(5,701)	(5,680)
Consolidated accrued benefits asset (liability), net of valuation allowance	\$ 5,742	\$ 1,526	\$ (5,701)	\$ (5,680)

The significant actuarial assumptions adopted in measuring the company's accrued benefit assets are as follows:

	Pension Benefit Plans		Retirement Allowances	
	2006	2005	2006	2005
Discount rate	5.80%	5.50%	5.80%	5.50%
Expected long-term rate of return on plan assets	6.50%	6.50%	-	-
Rate of compensation increase	3.50%	3.50%	3.25%	3.75%

Net benefit expense (income) is comprised of:

	Pension Benefit Plans		Retirement Allowances	
	2006	2005	2006	2005
Actual return on plan assets	\$ (29,859)	\$ (35,189)	\$ -	\$ -
Difference between actual and expected return on plan assets	13,068	19,698	-	-
Expected return on plan assets	(16,791)	(15,491)	-	-
Current service cost	1,260	1,137	160	176
Interest cost	10,628	10,976	254	345
Amortization of net actuarial gain	-	-	(80)	-
Valuation allowance provided against accrued benefit asset	968	3,649	-	-
	(3,935)	271	334	521
Net benefit expense of proportionately consolidated companies	267	302	-	-
Net benefit expense (income)	\$ (3,668)	\$ 573	\$ 334	\$ 521

b) Defined Contribution Plans

The company, not including subsidiaries and affiliates, contributes to three defined contribution plans of which one is a multi-employer plan. The company's total contribution expense for the year ended July 31, 2006, including the subsidiaries' and proportionate share of joint ventures' defined contribution plans, is \$3.8 million (2005 - \$3.5 million).

One of the plans that the company contributes to is the Saskatchewan Wheat Pool/Grain Services Union Pension Plan, a closed negotiated cost plan providing defined benefits in respect of approximately 1,400 former employees and approximately 600 current employees. A Board of Trustees consisting of equal representation from the company and the Grain Services Union (GSU) administers the Plan. Since the cost is negotiated, the company accounts for this Plan as a defined contribution plan; however, it must be valued for regulatory purposes as a defined benefit plan.

The company first reported in the fiscal 2005 Second Quarter Report an estimated potential deficiency of \$1.9 million on a going concern basis and a solvency deficiency of \$28 million as of December 31, 2004. On September 22, 2005, the Office of the Superintendent of Financial Institutions (OSFI) expressed concern about the solvency of the Plan and based on its own financial tests ordered that transfers from the Plan made by members exercising portability rights be restricted to 80% of the accrued value of their benefits. The remaining portion would be paid out over the following five-year period, assuming the Plan does not wind-up.

A formal actuarial valuation on the Plan as at December 31, 2005, was filed with OSFI in June 2006. The report indicates a solvency deficiency of \$38.8 million and a going concern surplus of \$7.9 million.

Pension regulations require the solvency deficiency as at December 31, 2005, to be addressed over a five-year period through equal quarterly installments plus interest. With a \$38.8 million solvency deficiency, additional contributions (deficiency payments) of approximately \$2.2 million per quarter would be required over a five-year period or until termination of the Plan.

On March 16, 2006, OSFI sent two letters to the Trustees of the Plan. The first of these letters was a reminder to the Trustees of their obligations under the Pension Benefits Standards Act, 1985 (the PBSA), including an obligation to consider all the options available to them to resolve the solvency deficiency. The second letter set forth OSFI's position with respect to the funding obligations of employers under the PBSA. This letter pointed out that the PBSA does not provide for different funding requirements for a closed negotiated cost plan that provides defined benefits, and that accordingly in respect of such plans, OSFI's view is that the employer is responsible for making special and normal cost payments to the pension fund. On March 20, 2006, the company wrote to OSFI formally requesting that OSFI take immediate action to wind-up the Plan to equitably protect all stakeholders. By letter dated April 7, 2006, OSFI indicated that they were not prepared to wind-up the Plan at that time and that it was the duty of both the GSU and the company to act in good faith to restore the solvency of the Plan. Since then OSFI has encouraged the company and the GSU to reach an agreement regarding the funding issue. Resolving the deficiency may be accomplished by making one or more of the following changes to the Plan: amending the Plan structure, reducing benefits, increasing employer contributions or employee contributions.

The company believes it is in compliance with all of its legal obligations in respect of the Plan including its annual negotiated financial obligation of approximately \$1.3 million. Notwithstanding the company's position that neither the collective agreement with the GSU, the Plan text nor the spirit or intent of the original agreement requires the company to pay solvency deficiency payments, the company, on September 20, 2006, submitted a final offer to the GSU to wind-up the Plan as of September 30, 2006, and in return the company would fund 50% of a calculated solvency deficiency up to a maximum of \$20 million. In order to provide a permanent resolution to this dispute, the GSU would need to agree that responsibility for the remaining deficiency would rest with Plan members and not the company. The offer is subject to ratification by the company's Board of Directors, the GSU and approval by appropriate regulatory authorities. The company has received advice from legal counsel that it is only responsible for deficiency payments that are due and not paid if the Plan is wound-up. If the offer is not accepted by the GSU, the company intends to take action to wind-up the Plan and to defend itself against any action by OSFI ordering the company to make deficiency payments.

The manner in which this dispute will ultimately be resolved is unclear. Options for resolution include:

- a negotiated settlement with the GSU that is satisfactory to regulatory authorities,
- litigation with OSFI to determine whether the company is obligated to make solvency deficiency payments which would total \$38.8 million over the five year period from the latest filed valuation, and
- payment of deficiency payments in the amount of \$2.2 million per quarter from December 31, 2005 to the date a wind-up is ordered by OSFI.

Management has evaluated the potential outcomes of this dispute and the range of the amount of loss to the company. While it is uncertain as to the manner in which this matter will be ultimately resolved, in the opinion of management it is likely that the minimum loss to the company will be \$15 million. Accordingly, in the fourth quarter of fiscal 2006, a charge of \$15 million has been recorded to reflect management's best estimate of the minimum cost to the company to resolve the dispute.

There is a risk that the company may ultimately be held responsible for an increase in contributions beyond the \$15 million provided for in these statements.

20. DISCONTINUED OPERATIONS

During fiscal 2004 the company sold the assets of its Heartland Pork, Heartland Feeds and Aquaculture operations. The company does not have any continuing involvement in these operations. The results of these operations for the prior periods have been classified as discontinued operations, in accordance with CICA 3475 Disposal of Long-Lived Assets and Discontinued Operations.

The discontinued operations were located in Saskatchewan and consisted of seven pork barns, one feedmill operation and one aquaculture operation. The company decided to exit these business lines because of disappointing operating results and industry risks.

The fiscal 2006 recoveries from discontinued operations represent \$7.4 million (2005 - \$3.8 million) in after-tax recoveries related to filings under the Canadian Agricultural Income Stabilization Program (CAIS), a joint federal/provincial risk management program. The CAIS filings represent a recovery of a portion of the operating losses incurred by these discontinued operations in prior years. The balance of the net earnings for fiscal 2005 primarily relates to recoveries against the loss recorded in the prior year.

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

	2006	2005
Recoveries before corporate taxes	\$ 11,509	\$ 7,474
Corporate tax expense		
Current	-	71
Future	(4,134)	(2,473)
Total corporate tax expense	(4,134)	(2,402)
Net recoveries from discontinued operations ¹	\$ 7,375	\$ 5,072

¹ Net recoveries from discontinued operations include:

Sales, service and other revenues	\$ 11,509	\$ 6,279
Gain on divestiture – after tax	\$ -	\$ 859

21. FINANCING EXPENSES

a) Interest Expense

	2006	2005
Interest on long-term debt	\$ 17,170	\$ 18,898
Other interest	332	2,791
Write-off of debt issuance costs	-	3,851
Interest accretion	1,862	10,604
Amortization of deferred financing costs	1,690	906
	\$ 21,054	\$ 37,050

b) Expenses Associated with the Redemption of the Senior Subordinated Notes

	2006	2005
Adjustment of carrying value to face value	\$ 8,209	\$ -
Early repayment premium	3,000	-
	\$ 11,209	\$ -

22. CORPORATE TAX EXPENSE

a) The provision for (recovery of) corporate income taxes consists of:

	2006	2005
Current	\$ 1,726	\$ 1,506
Future	12,595	(1,503)
	\$ 14,321	\$ 3

b) The variation between the provision calculated at the statutory income tax rate and the company's provision is explained as follows:

	2006	2005
Earnings before corporate taxes	\$ 7,477	\$ 7,020
Effective federal and provincial tax rate	36.0%	36.5%
Pre-tax accounting income at statutory income tax rate	\$ 2,691	\$ 2,562
Change in effective tax rate on future income taxes	11,834	1,291
Amounts deductible for tax but not in accounting income	(468)	(1,679)
Recoveries and adjustments relating to prior years	-	(2,824)
Federal large corporation's capital tax	295	776
Other	(31)	(123)
	\$ 14,321	\$ 3

c) Income taxes allocated to future years are comprised of the following:

	2006	2005
Future income tax assets:		
Undepreciated capital cost in excess of net book value	\$ 71,543	\$ 70,556
Losses available for carry-forward	55,235	88,985
Refinancing and restructuring costs not deducted for tax	5,267	7,583
Accrued expenses not currently deductible for tax	9,542	3,733
Senior Subordinated Notes	-	(3,676)
Other	1,575	(535)
Sub-total	143,162	166,646
Valuation allowance ¹	(39,839)	(63,898)
Total future income tax assets	\$ 103,323	\$ 102,748

¹ The valuation allowance represents management's best estimate of the allowance necessary to reflect the future income tax assets at an amount that the company considers is more likely than not to be realized. Included in the \$103.3 million future income tax asset (2005 - \$102.7 million) is an adjustment of \$18.0 million (2005 - \$15.6 million) made directly to retained earnings for a decrease in the future income tax assets' valuation allowance. The adjustment to retained earnings represents future tax assets not initially recognized at January 31, 2003 as part of fresh start accounting.

The 2005 comparative amounts for “other” and the valuation allowance have been reduced by \$5.5 million to reflect the tax on a temporary difference of an investment. There is no impact to the statement of earnings as a result of this adjustment.

The future income tax assets are classified in the consolidated financial statements as:

	2006	2005
Current future income tax assets	\$ 772	\$ 78
Long-term future income tax assets	102,551	102,670
	<u>\$ 103,323</u>	<u>\$ 102,748</u>
Future income tax liabilities:		
Net book value in excess of undepreciated capital cost	\$ 4,888	\$ 7,921
Reclamation costs not deductible for tax	(2,570)	(4,797)
Other	(284)	435
Total future income tax liabilities	<u>\$ 2,034</u>	<u>\$ 3,559</u>
Classified in the consolidated financial statements as:		
Current future income tax liabilities	\$ -	\$ -
Long-term future income tax liabilities	2,034	3,559
	<u>\$ 2,034</u>	<u>\$ 3,559</u>

d) The expiry dates associated with the losses available for carry-forward are:

2007	\$ -
2008	21,529
2009	40,040
2010	50,455
2011-2014	<u>60,472</u>
	<u>\$ 172,496</u>

In addition, at July 31, 2006, the company has net capital loss carry-forwards of \$32.4 million (2005 - \$25.5 million). These losses can be carried forward indefinitely and applied against taxable capital gains realized. The future tax benefits of these losses have not been recognized in these financial statements.

The future benefit of investment tax credits has not been recognized in these financial statements.

23. GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT

Reflected under Sales and Other Operating Revenues is \$3.3 million (2005 - \$0.7 million) relating to gains on the sale of property, plant and equipment. \$2.4 million was recorded in the third quarter of 2006, (\$2.0 million Grain Handling and Marketing segment, \$0.4 million Agri-products segment) relating to the company’s sale of its 50% interest in the Lloydminster Joint Venture on February 22, 2006.

24. FINANCIAL AND OTHER INSTRUMENTS AND HEDGING

Risk Management

The company is exposed to changes in commodity prices, foreign exchange rates and interest rates. The company utilizes a number of financial instruments to manage these exposures. Financial instruments are not used for trading or speculative purposes. The company mitigates risk associated with these financial instruments through Board-approved policies, limits on use and amount of exposure, internal monitoring, and compliance reporting to senior management and the Board.

a) Commodity Price Risk

The company uses exchange-traded futures and options contracts to minimize the effects of changes in the prices of hedgable agricultural commodities on its agri-business inventories and agricultural commodities forward cash purchase and sales contracts. Exchange-traded futures and options contracts are valued at the quoted market prices. Forward purchase contracts, and forward sales contracts are valued at the quoted market prices, which are based on exchange quoted prices adjusted for freight and handling costs.

b) Foreign Exchange Risk

The company also uses derivative financial instruments, such as foreign currency forward contracts and futures contracts, to limit exposures to changes in foreign currency exchange rates with respect to its recorded foreign currency denominated assets and liabilities. As outlined in Note 3 k(i), certain areas of the company not related to the handling and marketing of grain follow the hedge accounting guidance in the CICA's AcG-13, whereby the gains, losses, revenues and expenses associated with the hedged item and the hedging instrument are recognized in income in the same period. In the remaining areas of the company, forward foreign exchange and futures contracts are marked-to-market and unrealized gains and losses are recognized in income in the period in which they occur.

The terms of the forward foreign exchange contracts listed below are for up to three years and include the company's proportionate share of joint venture contracts:

	2006	2005
Notional U.S. dollars sold	\$ 137,443	\$ 155,952
Notional Euros sold	€ 2,674	€ -
Canadian equivalent	\$ 164,853	\$ 199,217
Fair value	\$ 157,940	\$ 190,309
Unrealized gain	\$ 6,913	\$ 8,908
Average foreign exchange rate	\$ 1.1765	\$ 1.2774

Of the \$6.9 million unrealized gain at July 31, 2006, approximately \$0.1 million is recognized in these financial statements (2005 – \$1.1 million). The remainder will be recognized on a basis consistent with the recognition of the underlying hedged transaction.

c) Interest Rate Risk

The company is exposed to interest rate risk on long-term debt (see Note 14), however, this risk is considered low and there are no financial contracts in place to offset interest rate risk.

d) Cash Flow Risk

The company is exposed to future cash flow risk in its unsecured long-term debt. The company's subsidiaries and joint ventures are also exposed to future cash flow risk in their long-term debt, which is secured by certain assets and subject to certain covenants. If secured assets are sold or certain covenants are not fulfilled, there is a requirement by the company's subsidiaries and joint ventures to provide partial redemption of the associated long-term debt.

e) Credit Risk

The company is exposed to credit risk from customers in all the business segments. In the Grain Handling and Marketing segment, a significant amount is receivable from the CWB (see Note 5). The customer base in all other segments is diverse, which minimizes significant concentration of credit risk. Credit risk is limited due to the large number of customers in differing industries and geographic areas.

The company is exposed to credit loss in the event of non-performance by counterparties to the derivative financial instruments but does not anticipate non-performance by these counterparties. All counterparties are highly rated financial institutions.

Fair Value

The carrying value of long-term debt that bears interest at variable rates approximates fair value (see Note 14e). The fair value of long-term debt that bears interest at fixed rates is based on its quoted market price or on discounted future cash flows using rates currently available for debt of similar terms and maturities if the quoted market price was not available.

The carrying value of other financial instruments, cash, cash in trust, short-term investments, accounts receivable, bank indebtedness, short-term borrowings, members' demand loans, accounts payable and accrued liabilities approximate fair value due to the short period to maturity or redeemable nature.

The fair value of derivative financial instruments, consisting of foreign exchange contracts, reflects the estimated amounts that the company, its subsidiaries and its proportionate share of the joint ventures would receive or pay to settle the contracts at the reporting date. However, this does not represent the total gain or loss to the company, its subsidiaries or its proportionate share of the joint ventures as the hedged position is matched to certain of the related assets or liabilities.

Foreign Exchange Gains and Losses

Foreign exchange gains of \$0.8 million are included in Sales and Other Operating Revenues for the year ended July 31, 2006 (2005 - \$0.1 million loss).

25. INTERESTS IN JOINT VENTURES

The following summarizes the company's proportionate interest in joint ventures before inter-company revenue and expense eliminations:

	2006	2005
Current assets	\$ 65,438	\$ 79,915
Long-term assets	\$ 39,694	\$ 45,372
Current liabilities	\$ 22,857	\$ 24,795
Long-term liabilities	\$ 12,486	\$ 20,446
	Year ended	Year ended
	July 31, 2006	July 31, 2005
Revenue	\$ 258,521	\$ 256,166
Expenses	\$ 246,321	\$ 235,343
Net earnings	\$ 12,200	\$ 20,823
Cash from operating activities	\$ 910	\$ 41,359
Cash used in financing activities	\$ (22,193)	\$ (12,292)
Cash used in investing activities	\$ (3,398)	\$ (2,830)

The pre-tax earnings of certain joint ventures is taxed at the owner level therefore the associated corporate tax expense is not included in expenses or earnings of the joint venture.

26. SEGMENTED INFORMATION

The company's operations are organized into three reportable segments based on products and services.

a) Grain Handling and Marketing

Activities consist of handling and marketing of grain including the collection of grain through the company's primary elevator system, shipping to inland or port terminals, cleaning of grain to meet regulatory specifications, and sales to domestic or export markets.

b) Agri-products

Activities consist of sales of a variety of agri-products including crop protection products, seed and seed treatments, farm equipment, and the manufacture and sales distribution of fertilizer.

c) Agri-food Processing

Activities involve manufacturing and marketing of value-added products associated with oats and malt barley.

The segment's accounting policies are consistent with those described in Accounting Policies (Note 3). The company accounts for inter-segment sales at current market prices under normal trade terms.

The following information is from continuing operations.

	Year ended	
	July 31	
	2006	2005
Sales		
Grain Handling and Marketing	\$ 930,863	\$ 766,107
Agri-products	540,269	514,238
Agri-food Processing	122,265	118,486
	1,593,397	1,398,831
Less: Inter-segment Sales	13,160	13,101
	\$ 1,580,237	\$ 1,385,730
Inter-segment Sales		
Grain Handling and Marketing	\$ 12,983	\$ 12,884
Agri-food Processing	177	217
	\$ 13,160	\$ 13,101
EBITDA¹		
Grain Handling and Marketing	\$ 60,494	\$ 37,111
Agri-products	27,032	39,251
Agri-food Processing	18,349	16,448
	105,875	92,810
Corporate Expenses	(23,408)	(22,280)
Provision for Pension Settlement	(15,000)	-
	\$ 67,467	\$ 70,530
Amortization		
Grain Handling and Marketing	\$ (11,579)	\$ (11,348)
Agri-products	(11,017)	(10,000)
Agri-food Processing	(5,131)	(5,112)
	\$ (27,727)	\$ (26,460)

	Year ended July 31	
	2006	2005
EBIT ²		
Grain Handling and Marketing	\$ 48,915	\$ 25,763
Agri-products	16,015	29,251
Agri-food Processing	13,218	11,336
	78,148	66,350
Corporate Expenses	(23,408)	(22,280)
Provision for Pension Settlement	(15,000)	-
	\$ 39,740	\$ 44,070

¹ EBITDA – earnings from continuing operations before interest, taxes and amortization.

² EBIT – earnings from continuing operations before interest and taxes.

	Year ended July 31	
	2006	2005
Capital Expenditures		
Grain Handling and Marketing	\$ 17,262	\$ 6,710
Agri-products	5,739	3,640
Agri-food Processing	6,984	2,515
	\$ 29,985	\$ 12,865

	2006		2005	
	Assets			
Grain Handling and Marketing	\$ 305,458		\$ 313,943	
Agri-products	173,573		171,652	
Agri-food Processing	91,076		81,942	
Corporate and Other	203,923		154,323	
	\$ 774,030		\$ 721,860	

	Year ended July 31	
	2006	2005
Foreign Sales		
Grain Handling and Marketing	\$ 267,876	\$ 238,850
Agri-products	2,908	8,572
Agri-food Processing	111,057	107,125
	\$ 381,841	\$ 354,547

27. COMMITMENTS, CONTINGENCIES AND GUARANTEES

- a) The company, including its subsidiaries and its proportionate share of joint ventures, has operating leases relating primarily to railcars, buildings and equipment. Future minimum lease payments having initial or remaining lease terms in excess of one year at July 31, 2006 are as follows:

2007	\$5,263
2008	\$4,220
2009	\$3,174
2010	\$2,467
2011	\$1,451

- b) The company and its subsidiaries are involved in various claims and litigation arising in the ordinary course and conduct of their business. Although such matters cannot be predicted with certainty, management does not consider the company’s exposure to such litigation to be material to these consolidated financial statements.
- c) In the normal course of business, the company can, from time-to-time, commit to secure agri-products inventory for delivery at a future date. At July 31, 2006, the dollar value of this commitment was \$4.4 million (2005 – nil).
- d) Banking letters of credit and similar instruments (see Note 11).
- e) Loan loss provision (see Note 15b).
- f) The Commissioner of Competition has applied for an order from the federal Competition Tribunal to dissolve the joint venture between the company and James Richardson International Limited. The two companies are contesting this application and will continue operating the joint venture, named Pacific Gateway Terminals Limited, on a status quo basis during the ongoing proceedings. Subject to final regulatory approval, the company is committed to the joint operation of PGTL for a period of ten years. PGTL was established on July 11, 2005.
- g) The company has provided guarantees to a finance company related to equipment leases entered into by producers. As of July 31, 2006, the outstanding balance was \$0.5 million (2005 - \$1.4 million). Given historically low delinquent rates in conjunction with collateral values of assets, the company has accrued no obligation.
- h) The company has secured grain volume insurance that provides a level of protection against a dramatic reduction in grain receipts (producers’ deliveries). The agreement commits the company to total reinsurance premiums of \$1.1 million to be payable in equal installments over the next two fiscal periods.
- i) Funding of the Saskatchewan Wheat Pool/Grain Services Union Pension Plan (See Note 19b).

28. COMPARATIVE AMOUNTS

Certain prior period amounts have been reclassified in order to conform to the financial statement presentation adopted in the current year.