

Management's Discussion and Analysis

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1. RESPONSIBILITY FOR DISCLOSURE

Management's Discussion and Analysis was prepared based on information available to Saskatchewan Wheat Pool Inc. (the Pool or the Company) as of October 12, 2006. Management has prepared this discussion to assist readers in interpreting the Pool's financial results for the fiscal year ended July 31, 2006, and the changes in performance relative to the previous year. Management has included information to assist readers in their understanding of the industry and the markets in which the Pool operates, as well as the trends that may impact operational and financial performance into the future. Additional information on the Pool, including the Annual Information Form, is available on SEDAR under the Company's name at www.sedar.com.

The Pool's Management's Discussion and Analysis, Consolidated Financial Statements and Notes have been prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars.

2. COMPANY OVERVIEW

The Pool is a vertically integrated Canadian agri-business engaged in three distinct but interrelated businesses. Founded in 1924, the Company serves western Canadian farmers and markets commodities and food products around the world. It is the largest publicly traded agri-business in the Province of Saskatchewan and the second largest in Western Canada.

The Pool's core businesses are grain handling and marketing, agri-products sales and oat processing. The Pool also participates in fertilizer manufacturing through an ownership interest in Western Co-operative Fertilizers Limited (WCFL) and in malt processing through an affiliated company, Prairie Malt Limited. The Pool is involved in other commodity-related businesses through strategic alliances and supply agreements with domestic and international grain traders and food processing companies.

The Pool's fiscal year runs from August 1 to July 31 and follows the traditional crop year. The bulk of agri-products sales in each fiscal year are in the fourth quarter, which occurs in the spring and summer when the crop is planted and maturing. For the grain business, harvest takes place in the fall and the Pool typically begins receiving new crop supplies midway through its first quarter. Grain movement throughout the year depends on destination customer demand, the Canadian Wheat Board's (CWB's) export program, and producers' marketing decisions, which are driven by commodity price expectations and cash flow requirements.

3. BUSINESS MODEL

The Pool's business model is designed to optimize its position in the agri-food pipeline by connecting producers and their commodities with destination customers around the world, generating revenue at each stage of the value-added pipeline.

The Pool's relationship with farmers across Western Canada is extremely important, given that they are both the primary customer and suppliers of Pool products. The Company provides farmers with agronomic and planning advice and other services at the beginning of the crop cycle and delivers customized agricultural solutions aimed at ensuring that high-quality, high-yielding crops are available to meet demands in the international marketplace.

The Pool sells a wide variety of specialized seed, along with fertilizer, crop protection products, and small agricultural equipment. By bundling agri-products with production contracts, trucking premiums, financing options and targeted marketing programs, the Pool attracts grain into its high throughput grain handling network on the Prairies, where the product is cleaned, blended and dried before it is sold to the domestic or export market. The Pool markets the grain direct to end-use customers

through its commodity merchandisers or the CWB and the products are shipped from the Prairies either by truck or by rail to various markets. The Pool manages the transportation and logistics requirements to the destination and is responsible for maintaining the integrity of the product while en route and in storage. For the international marketplace, the product normally moves through one of the Pool's port terminal facilities. Before being loaded onto vessels, the product is graded by the Canadian Grain Commission (CGC) to ensure it meets the quality specifications demanded by the international marketplace.

Pool commodities can be found in food products around the world, whether they are in breakfast cereals or snack bars sourced from the Pool's oat processor, Can-Oat Milling, or traded through strategic alliances and supply agreements with other food processing and consumer products companies internationally. The Pool develops relationships globally to secure demand for Prairie agricultural products, completing the pipeline to the consumer.

3.1 Agri-products

The Pool's Agri-products segment operates a network of 100 retail locations throughout Western Canada, covering over 70% of the crop growing regions of the Prairies. Each facility is involved in the specialized storage and sales of bulk fertilizer, bagged seed, crop protection products and agricultural equipment, such as storage bins. Many locations also store and sell anhydrous ammonia, a cost-effective form of nitrogen fertilizer. The Pool provides educational training to producers to support the safe use of this product on-farm. All facilities provide seed, soil and moisture testing services. The Pool's retail stores are staffed by individuals with agronomic and agri-business expertise and are supported by a team of professional agronomists.

The Pool is the only grain company in Western Canada that has its own plant-breeding program. The Pool's research and development centre at the University of Saskatchewan focuses on developing high-yielding seed products, primarily canola, designed to thrive in Western Canada's diverse climate. The Pool contracts with Prairie growers to produce the seed and then through its retail network sells proprietary products along with third party varieties provided through suppliers such as Bayer CropScience and Monsanto Company.

The Pool and Agricore United jointly own WCFL. Headquartered in Calgary, Alberta, WCFL is a fertilizer wholesaler and manufacturer and a significant contributor to this segment's sales and earnings stream. WCFL holds a 34% investment in Canadian Fertilizers Limited, a fertilizer manufacturer with a plant in Medicine Hat, Alberta.

The Pool holds an investment in Interprovincial Co-operative Limited, an important manufacturer and supplier of crop protection products in Canada. Through its strategic alliances with Farm Credit Canada and John Deere Credit, the Pool offers agri-products financing to Prairie producers.

3.2 Grain Handling and Marketing

The Pool's grain handling and marketing operation boasts a state-of-the-art grain handling system, consisting of 42 high throughput grain handling and marketing terminals and six specialty crop cleaning and handling facilities strategically located in the prime agricultural regions of Western Canada. Nineteen of the Pool's high capacity grain handling terminals are capable of loading 100 to 112 railcars at a time, allowing the Pool to leverage incentives offered by the railways for multi-car loading – an advantage in attracting more producer deliveries. The Company operates predominantly under the Pool brand in Saskatchewan and as AgPro in Alberta and Manitoba.

The Pool's grain handling and marketing network has wholly owned port terminal export facilities in Vancouver, British Columbia, and Thunder Bay, Ontario, and an interest in an export facility in Prince Rupert, British Columbia.

The Pool and James Richardson International Limited (JRI) have been operating a joint venture of their wholly owned Vancouver port terminals since July 2005. JRI operates on the Prairies and at port position under the Pioneer brand. The operating joint venture – Pacific Gateway Terminals Ltd. (PGTL) – creates important efficiencies, with improved coordination of railways, better utilization of storage capacity, a reduction in the total number of commodity segregations, and an increase in overall operating capacity, which result in export efficiencies for producers and the industry as a whole. The joint venture is subject to regulatory approvals and is operating under an interim order from the Competition Bureau. The joint venture is expected to come before a federal Competition Tribunal in the spring of 2007 for regulatory approval.

In fiscal 2006, the Pool entered into a multi-year supply agreement with Tokyo-based Mitsui & Co. Ltd. to become one of its primary suppliers of Pool-originated Canadian oilseeds into Japan. The Pool also has important relationships with trading partners around the world, including Alfred C. Toepfer, an international grain trader with 40 offices worldwide and with various food processors and international market leaders.

3.3 Agri-food Processing

The Pool's significant interests in agri-food processing include: wholly owned Can-Oat Milling, the world's largest industrial oat miller, with plants in Portage la Prairie, Manitoba, Martensville, Saskatchewan, and Barrhead, Alberta; and 42.4% owned Prairie Malt Limited, one of North America's largest single-site malting plants, located at Biggar, Saskatchewan.

Can-Oat Milling has established itself as a market leader in industrial supply and is the supplier of choice for many North American food manufacturers. Can-Oat's customers are primarily North American marquee food manufacturers that are consistent brand leaders in breakfast cereals, whole grain and healthy food choices. Can-Oat controls 43% of the independent oat milling capacity in North America (rising to approximately 46% in fiscal 2007 after the expansion of the Portage la Prairie plant), with technology that meets or exceeds its competition. More than 90% of its production is exported to the United States. Through Can-Oat's recent acquisition of ConAgra's Barrhead facility, the company is expanding its product lines to include barley processing and organics. This expansion is expected to allow Can-Oat to attract new customers and destination markets, taking advantage of the Pool's strategic port position in Vancouver.

Prairie Malt Limited is located in the heart of Canada's vast Prairie region, where some of the best barley in the world is grown within a 100-kilometre radius of the plant. Prairie Malt has an annual capacity of 220,000 metric tonnes (mt) and produces top quality malt that is shipped to customers throughout Canada, the United States, South Africa and Pacific Rim and Latin American countries.

3.4 Discontinued Operations

The Pool exited the hog production, feed processing and aquaculture industries in fiscal 2004. The discussion of discontinued operations for fiscal 2005 and fiscal 2006 is included because of recoveries the Pool received during those years. The amounts are reflected on the Consolidated Statements of Earnings and Retained Earnings (Deficit). Readers may refer to Note 20 in the Notes to the Consolidated Financial Statements for additional information.

4. MARKET ENVIRONMENT

4.1 Agri-products Market

The Agri-products industry in Western Canada is a mature market. It is made up of about 240 competitors servicing 900 locations throughout the region (750 retail operations in the Pool's market area). Independent retailers, which hold about 30% of the market, together with a host of major grain handlers, sell seed, fertilizer, crop protection products and small agricultural equipment. Excluding

small agriculture equipment, the total market is approximately \$3.3 billion in annual sales, geographically distributed as follows:

Agri-product Sales	
Saskatchewan	\$ 1.5 billion
Alberta	\$ 1.1 billion
Manitoba	\$ 0.7 billion

Source: Statistics Canada – Farm Expenses and Depreciation Charges, May 2006

The Pool competes in 16 market centres with effective market coverage of about \$2.2 billion. It does not operate retail stores in all areas of Manitoba and Alberta and, therefore, does not have access to those entire markets. Low crop prices, poor growing conditions and competitive selling prices can put pressure on volumes and margins from time to time but in general, the Pool's market has historically supported retail gross margins in the 12% to 15% range.

Total market acreage of about 61 million has remained essentially the same for the past five years, with some growth in seed sales as a result of producers shifting from cereal grains to canola and special crops.

(in millions of acres)	Seeded Acreage – Western Canada				Total
	All Wheat	Coarse Grains	Oilseeds	Special Crops	
Five-year average					
2002-2006	25.0	16.2	13.3	6.8	61.3
2002	26.2	15.4	11.1	7.1	59.8
2003	25.5	17.6	11.3	6.7	61.1
2004	25.0	17.4	13.5	6.2	62.1
2005	24.5	15.8	14.9	7.1	62.3
2006	23.8	14.8	15.6	6.7	60.9
2007 estimate	24.9	13.7	15.2	6.0	59.8

Source: Statistics Canada Field Crop Reporting Series, Vol. 85, No. 5. – 2002 to 2007 data

Commodity prices and global supply and demand fundamentals drive producers' seeding decisions. After years of low prices, commodity prices have strengthened and global supplies have tightened, setting the stage for strong demand for Canadian grains and oilseeds. New market needs driven by biodiesel growth, particularly in Europe, and the prospect of increasing ethanol production in Canada could spark demand for additional oilseed production and high starch wheat varieties. Western Canadian farmers could begin to see significant demand from destination customers that want to ensure continuing access to Canada's high quality grain based products. End users are likely to raise the number of acres that are under contract with producers through companies like the Pool, in order to secure commodities to meet their processing needs.

Fertilizer prices can also alter buying behaviour and sales. Pricing is highly dependent on natural gas prices. If producers believe that fertilizer (and/or natural gas) prices are on the rise, they will pre-buy product in an attempt to reduce overall input costs, shift the timing of their purchases or, reduce the amount of fertilizer they apply to their crops.

While seeded acreage has been relatively stable historically, input usage has climbed, driven by new seed technologies and varieties, new fungicides and a shift from cereal grains to oilseeds and special crops. This increase is expected to taper off and general agri-products growth is expected to more closely track inflation in the future.

Western Canadian Agri-product Sales					
	2001	2002	2003	2004	2005
Saskatchewan	1,397,007	1,298,372	1,481,123	1,459,848	1,506,905
Alberta	1,003,613	986,383	1,069,970	1,093,185	1,124,919
Manitoba	676,489	689,891	761,554	749,743	721,673
Total	3,077,109	2,974,646	3,312,647	3,302,776	3,353,497

Source: Statistics Canada – Farm Expenses and Depreciation Charges, May 2006

The industry is highly seasonal with up to 75% of seed, fertilizer and crop protection products sold and delivered from mid-April to the end of June in a typical year. The fall season, from August to November, represents about 15% of the business. The post-harvest buying period depends on the weather, as freezing temperatures and snowfall can bring the season to a halt and push sales into the spring. A strong fall application period can relieve some of the spring logistical requirements because fertilizer will not be reapplied in the spring.

Adequate rain across much of the Prairies followed the 2006 harvest. This set the stage for farmers' application of crop protection products to eliminate fall weed growth and the use of anhydrous ammonia, a fertilizer product that restores nitrogen in the soil. The application of anhydrous ammonia depends on soil moisture and ground temperature levels.

4.2 Grains and Oilseeds

Western Canada produces on average, 47.5 million metric tonne (mmt) of grains and oilseeds annually (based on the 10-year average of the six major grains and oilseeds). Typically, 70% of this total (32 mmt to 33 mmt) is available to Prairie grain handling companies to market to end-use customers or through the CWB. The rest remains in Canada and is consumed domestically by food processors and feedlots.

Six Major Grains	
% of Average Crop	
Wheat	47%
Barley	22%
Canola	17%
Oats	6%
Peas	6%
Flax	2%

Source: Statistics Canada Production – weighted three-year average from 2004-05 to 2006-07

Western Canadian Production of Six Major Grains											
(in mmt)											
F1997	F1998	F1999	F2000	F2001	F2002	F2003	F2004	F2005	F2006	Estimate F2007*	10-Year Average
Percent of 10-Year average					77%	58%	89%	101%	106%	101%	
54.5	48.1	49.0	52.9	51.0	39.0	30.0	45.3	51.1	53.3	48.1	47.5

Source: Statistics Canada Field Crop Reporting Series, Vol. 85, No. 5. – 1997 to 2006 data

* Statistics Canada Estimate released October 5, 2006

Prairie production available for fiscal 2007 is in line with the 10-year average, at 48.1 mmt. Good soil moisture conditions in the spring of 2006 were followed by a prolonged period of warm weather. The heat caused protein levels, an important driver of quality, to increase and the crop matured approximately one-month ahead of schedule. As a result, farmers began harvesting earlier than normal. In addition, farmers carried over 9.5 mmt of grains and oilseeds into fiscal 2007, production

that will be available to meet destination and export demands over the next 12 months. The 10-year average of on-farm carry-over is 5.3 mmt.

Six Major Grains Production Volumes			
Production Volumes: (mmt)	Estimate*		1997-2006
	F2007	F2006	10-Year Average
Saskatchewan	23.3	28.7	23.4
Alberta	16.3	19.3	16.0
Manitoba	8.3	5.0	7.8
British Columbia	0.2	0.3	0.3
Western Canada	48.1	53.3	47.5

Source: Statistics Canada Field Crop Reporting Series, Vol. 85, No. 5. – 1997 to 2006 data.

* Statistics Canada Estimate released October 5, 2006

The quality of crop available to the Pool in fiscal 2007 is expected to be well above average but it will vary with the type of commodity. Wheat and durum, two important crops for the Pool, are expected to achieve top grades, which should drive demand in the export market. Milling quality grains are higher margin commodities for the Pool because they require more processing, cleaning and handling to ensure specifications are in line with milling requirements. The primary market for feed grains is domestic consumption in the livestock industry, which typically do not flow through the elevator system. There is a limited export market for feed grains and usually they require less processing and are therefore lower margin.

Canadian Red Spring Wheat			
Saskatchewan Wheat Quality for Years Ending July 31			
	#1& #2	#3	Feed
Five-year average F2001-F2006	56%	21%	23%
F2005 Actual	19%	21%	60%
F2006 Actual	43%	40%	17%
F2007 Pool Estimate*	85%	15%	0%

Source: Final Crop Report November 2005. Saskatchewan Agriculture, Food and Rural Revitalization, Report Number 32, November 16, 2005. (Note: Final Crop Reports are based on crop year not fiscal year.)

* Saskatchewan Wheat Pool Inc.'s internal estimate of spring wheat quality

The CWB has a monopoly on western Canadian milling wheat and malt barley (Board grains). As a monopoly, the CWB not only controls pricing and the flow and timing of wheat and barley deliveries into the elevator system by issuing contract calls to the producer, but it also determines the flow of shipments to port position by directing railcar logistics. The majority of western-based grain companies act as Agents for the CWB, buying grain from producers. Many grain companies are also CWB Accredited Exporters that secure wheat and barley sales in the global marketplace.

The monopoly has faced several challenges under the World Trade Organization Agreement because there is government guarantees in place to fund marketing deficiencies giving the CWB access to government backed financing. The CWB's role has also been the topic of significant debate among western Canadian farmers. The promise of dual marketing in the western provinces was a key theme in the federal Conservative Party of Canada's recent election platform. The Conservatives were successful in securing the majority of seats across the Prairies and have now, as the minority federal government, committed to providing western Canadian farmers with marketing choice. After several months of consultation, the federal government has struck a committee of industry experts to develop the framework under which dual marketing can be implemented. It is the federal government's belief that the CWB can survive in a dual market, and that farmers have the right to choose whether to market their commodities through the Board or through companies like the Pool. The Pool is confident of its ability to operate effectively in either environment and has the necessary expertise to provide these additional services to its farm customers. The timeframe for change has not been determined but it is believed the federal government will seek legislative amendments to effect dual marketing in Western Canada.

For open-market grains and oilseeds, the Pool buys and markets for its own account non-Board grains and oilseeds, such as canola, oats, peas and mustard. Grain handling companies market non-Board grains and oilseeds directly to end-use customers domestically and into the international marketplace. A significant portion of the Pool's international demand is secured through strategic alliances and supply agreements with international food processors and commodity trading firms.

About 60% of the Pool's total shipments are Board grains (five-year average) and this can fluctuate by as much as 10%, depending on wheat and barley production and the Board's export program in any given year. Grain is classified, graded and inspected by the CGC.

Canadian Exports – Six Major Grains												
(in millions of metric tonnes)												
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Estimate 2007	10-Year Average
CWB Grains	22.6	21.9	15.6	19.8	18.4	16.5	8.9	16.7	14.8	17.1	17.5	17.2
Non-Board Grains and Oilseeds	4.3	4.4	5.6	5.5	6.4	4.9	3.8	6.2	5.8	8.8	8.3	5.6
	26.9	26.3	21.2	25.3	24.8	21.4	12.7	22.9	20.6	25.9	25.8	22.8

Sources: 2006 Agriculture & Agri-Food Canada September 1, 2006 Grains & Oilseeds Outlook and Pulse and Special Crops Outlook (with product exports subtracted)
Canadian Grain Commission, "Exports of Canadian Grain"

Exports for fiscal 2007 are currently expected to be 25.8 mmt, exceeding the 10-year average by 13.2% and on par with fiscal 2006. The Pool believes this is a conservative estimate, particularly for wheat products, given the significant quality of this year's crop and the demands in the international marketplace due to tight supplies and poor Australian, American and European crops.

Transportation is an important factor in the agricultural industry because of competing demands for railcars and equipment to support Canada's exports. Canadian National Railway Company (CN) and Canada Pacific Railway Limited (CP) are the primary transportation providers for Prairie farmers. Their ability to meet the shipping demands of the agricultural industry in a timely manner is key to the efficient movement of grains and oilseeds into the international marketplace.

The CWB also plays a significant role in the transportation of wheat and barley. The CWB allocates 80% of railcars available for wheat and barley shipments to grain companies based on each grain company's previous 18-week producer deliveries. The remaining 20% of the CWB sales program is put to tender and grain companies can bid on the railcars. The winning bidder has the ability to spot these cars at any location and work with area producers to source the grain just-in-time to maximize efficiency.

In fiscal 2006, the CWB executed tenders for approximately 17% of its shipments, in an attempt to capitalize on the efficiencies and cost savings available by using high throughput elevators to offset overall declines in grain prices. The CWB's target was 20% in fiscal 2006. The Pool expects tenders to return to the 20% target for the CWB export program in fiscal 2007.

4.3 Oat Processing

2006 World Oat Exports*	
Canada	57%
Finland	17%
Sweden	14%
Australia	8%
Other EU Countries	2%
Other	2%
	100%

Source: Ag Commodity Research (fiscal 2006 ending July 31)

* excluding oat product exports

Canada is the third largest oat producer and the largest oat exporter in the world, representing 57% of the world's oat export trade. Total world production dropped slightly in 2006 to 23 mmt, including oats for feed and human consumption. Canada's oat production has remained relatively stable over the past 15 years and represents about 15% of the world's total. Close to 90% of Canada's oats are produced in Western Canada, with the majority, about 64%, grown in Saskatchewan and Manitoba.

The industry has seen strong growth in North American milling demand. As a result, the percentage of total oat production that is utilized for food and industrial purposes has increased. Approximately 25% to 30% of the annual crop is milling quality, while the rest is utilized as feed.

Canada consumes less than 50% of its oat production and exports the remainder, primarily to the United States. Canada exported more than one million metric tonnes to the United States last year, representing approximately 75% of that country's total oat imports.

Oat milling is an attractive segment of the food ingredients market and holds a strong position in the economy. Oats are non-GMO (non-genetically modified organism) and are a wholesome and natural whole grain, grown and processed with very little chemical application. Oat ingredients are functionally suitable for the rapidly growing 'convenience food' product categories, another important growth driver for the food industry. Oat demand is particularly resistant to industry downturn, since oats are a very economical food source. Overall, demand for oat ingredients is growing, fuelled primarily by the widely appreciated nutritional benefits of this cereal grain. The Food and Drug Administration in the United States approved a health claim for oat-based products, stating that the soluble fiber from oatmeal, as part of a low saturated fat, low cholesterol diet, may reduce the risk of heart disease. This official view of whole grain consumption has heightened consumer interest in oat-based foods. Many cereal and snack bar makers are now altering their product lines to include whole grains, a positive development for the oats industry over the long term.

Prices for Can-Oat's human consumption sales are determined in the United States. Foreign exchange exposure is an issue that must be managed by Canadian oat millers. Can-Oat has hedging strategies in place to manage its exposure and to ensure its products remain competitively priced in the U.S. market.

4.4 The Malt Industry

Malt, a processed form of top quality barley, is a key ingredient used in the production of beer. Malt provides most of the complex carbohydrates and sugars, which are necessary to give beer its distinctive flavour and alcohol content. For the same reasons, malt is used in making whiskey and other distilled spirits. It is also gaining considerable popularity in the food industry as a flavouring component and a source of nutrition. Quality, therefore, is essential. The main raw material used in the production of malt is malting quality barley.

Total world production of malt is approximately 18 mmt annually.

Global Malt Production	
EU	48%
China	17%
USA	11%
Canada	6%
Australia	4%
Other	14%
	100%

Source: Rabobank estimates, 2005

Global beer demand continues to rise with growth rates estimated at 2% per year. The main source of higher demand comes from emerging markets. This growth is attributable to increasing demand from China and Latin America, which is expected to gradually offset decreasing trade with Russia.

The CWB holds a monopoly on Canadian malt barley sales to domestic and international customers. Sales are made directly by the CWB or by Accredited Exporters of the CWB, like the Pool. Canadian maltsters purchase all of their malting barley from the CWB, with prices for malting barley based on North American and international market prices. The malting industry is the largest value-added exporter of grain in Canada and the largest barley customer of the CWB, purchasing over 50% of available CWB stocks annually.

5. KEY BUSINESS DRIVERS

The Pool's ability to achieve success in the western Canadian agricultural industry depends on key drivers.

5.1 Agri-products Segment

Competitive factors and the mix of crops seeded each year are key drivers of profitability for the Pool's Agri-products segment. Crop mix drives agri-products sales because commodities like wheat and barley require fewer inputs than special crops and canola. The type of crops seeded each year varies depending on commodity price forecasts, input costs and market demands. Each crop requires a different type and level of agri-product inputs (seed, fertilizer, chemicals) and, as a result, margin opportunities differ.

Average Input Costs*	
Wheat	\$40-\$60/acre
Barley	\$20-\$50/acre
Canola	\$60-\$100/acre

* Saskatchewan Wheat Pool Inc.'s estimate

Canola and special crop growers typically purchase seed each year. For wheat and barley, seed purchases are made for special varieties but farmers can re-seed regular varieties using seed from previous years.

Fertilizer pricing is also a business driver for agri-products suppliers. Natural gas is a primary component in nitrogen fertilizer and, as its price fluctuates, so do fertilizer prices. Producers' buying behaviour, in terms of both timing and quantity, will change depending on pricing. As a result, companies must monitor pricing to secure fertilizer at the right time and be flexible with supply to ensure the demand exists during the application periods.

Weather also influences the timing and quantity of sales in this business. Farmers regularly purchase crop protection products and fertilizer in the fall and spring periods. Extremely wet or dry conditions

will alter the timing and type of input purchases, depending on the level of plant disease and insect infestations for crop protection products and the amount of soil moisture for fertilizer.

Each 1% change in agri-products retail sales revenue represents approximately \$0.5 million in EBITDA. A 1% change in retail gross margin translates into about \$3 million in EBITDA.

5.2 Grain Handling and Marketing Segment

In the grain business, volume, quality and exports are the key profitability drivers. Volume is important because of the high fixed cost nature of the business. The more grain that flows through the Pool's pipeline, the lower the cost per tonne and the higher the profitability. Shipments for this segment are generally consistent quarter-to-quarter. Factors that affect the earnings flow include: timing of harvest; crop quality; winter closures of port terminals; timing of exports; and market prices.

	Fiscal 2006			
	Quarter Ending			
	October 31	January 31	April 30	July 31
Primary shipments (mmt)	1.8	2.1	2.0	2.0
EBITDA ¹ (millions)	\$ 5.2	\$ 12.1	\$ 17.8 ²	\$ 18.0 ²
EBITDA/tonne	\$ 2.89	\$ 5.76	\$ 8.90 ²	\$ 9.00 ²

¹ EBITDA – earnings before interest, taxes, depreciation and amortization.

² EBITDA – excluding one-time items.

With its dominant market share in Saskatchewan, where typically over 50% of western Canadian grains and oilseeds are grown, the Pool has access to sufficient supplies to maximize both its primary capacity on the Prairies and its port terminal capacity at export. In a normal year, every 5% change in western Canadian production has approximately a \$6 million EBITDA impact to the Pool.

Quality is an important factor that drives profitability and affects margins in two ways. First, the higher the quality of the commodity, the higher the margin the Pool extracts for services it provides to move the farmer's grain to market. In addition to elevation and storage fees, the Pool charges for cleaning and drying, and for processing at port position to ensure the commodity is export ready. Second, the Pool can also generate additional revenue from blending, provided there are sufficient quantities of varying grades.

Quality can also influence volumes and shipments as well. For instance, the CWB has ample international demand for milling quality wheat in the top three grades and for quality malt barley for brewing. However, international demand for feed grain is limited. CWB exports depend to some extent on the total quality and mix of the Canadian crop and the level of exports directly impacts western Canadian grain handling shipments for all industry players.

	Gross Margin		
	F2006	F2005	F2004
Gross Margin per tonne	\$20.01	\$18.05	\$21.39

The Pool's average gross margin (excluding one-time items) over the past three fiscal years was \$19.82 per tonne. A one-dollar swing in margin translates into approximately \$8 million in EBITDA for the Pool. The Pool does not include contributions from its ownership interest in Prince Rupert Grain in its gross margin calculation.

Throughput and velocity are important to the Pool's grain handling system; that is, the ability to move volume through our primary grain handling network quickly and efficiently while maintaining quality specifications. The Pool has 35% of the 100-car loading capacity, which is well ahead of the 25% held by its closest competitor. This is important because rail companies, which are responsible for moving the grain to export position, offer grain handling companies incentives for loading product onto multi-car unit trains. These rail incentives allow the Pool to offer producers competitive

transportation premiums to attract grain into its system in an effort to increase profitable market share.

In fiscal 2006, the Pool shipped 94% of its grains and oilseeds in 25, 50 and 100 car loads, with 78% of the grain shipped in 50s and 100s. The key to managing the pipeline and maximizing earnings is to target opportunities for large multi-car shipments. Incentives range from \$3 to \$4 per tonne for 50-car loads. On car loads of 100 or more, railways provide incentives of \$7 per tonne (railcars can hold about 90 tonnes of grains or oilseeds, depending on the commodity).

The Pool's western Canadian market share was 23% in fiscal 2006, on par with fiscal 2005. Every 1% change in market share translates into approximately \$5 million of EBITDA for the Grain Handling and Marketing segment.

5.3 Agri-food Processing Segment

For the oat milling business, yield is a significant factor in profitability. In an average year, it takes 1.6 tonnes of raw oats to produce one tonne of oat ingredients. The quality of raw oats has the most significant impact on yield. Oat varieties, soil conditions and farm practices can have a meaningful affect on quality and on a number of characteristics, which are required to meet specifications defined by individual customers. Every new crop has its own characteristics and milling adjustments are typically necessary to attain the best yield.

Oats are priced in U.S. dollars and prices are predominantly driven by the world feed grain market. The price of finished goods moves up and down with the price of oats. A strong Canadian dollar can create foreign exchange challenges and hedging practices are important to protect margins and ensure that Canadian producers remain competitive with American millers.

In the Pool's malt business, reliable quality is a key factor in maintaining sales relationships with international customers. Only high quality malt barley is selected for the malting process so crop quality can affect supply and increase production costs. The overall quality of the 2006 harvest was very good, which is positive for malting barley selections. Saskatchewan Agriculture and Food estimates that 43% of the barley grown in the province will grade as malt, compared with the 10-year crop report average of 30%. This estimate could change based on quality testing of samples received by the elevator system after harvest is complete.

For Prairie Malt, energy consumption, labour, and yield maximization (the amount of malt produced from a tonne of barley) are key production drivers. Natural gas is important for production and rising prices can significantly impact margins. Higher ocean freight rates are also becoming a concern because of implications for malt barley price appreciation. In addition, because sales are priced in U.S. dollars, a strengthening Canadian dollar can affect earnings. Prairie Malt reduces the impact of foreign currency fluctuations by engaging in hedging activities.

6. QUARTERLY FINANCIAL INFORMATION

Consolidated Quarterly Results								
(in millions except per share information)	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2005	Q2 2005	Q3 2005	Q4 2005
Sales and other operating revenues	\$273.9	\$367.7	\$336.5	\$602.1	\$228.7	\$322.3	\$288.0	\$546.7
EBITDA	\$ -	\$ 11.1	\$ 17.5	\$ 38.9	\$ (2.1)	\$ 14.0	\$ 11.5	\$ 47.1
EBIT	\$ (6.8)	\$ 4.1	\$ 10.6	\$ 31.8	\$ (8.5)	\$ 7.1	\$ 5.1	\$ 40.4
(Loss) earnings from continuing operations	\$ (7.7)	\$ (1.9)	\$ (10.6)	\$ 13.4	\$ (15.6)	\$ (0.9)	\$ (2.1)	\$ 25.6
Net recoveries from discontinued operations	\$ -	\$ 4.9	\$ 2.4	\$ 0.1	\$ -	\$ -	\$ 1.2	\$ 3.9
Net (loss) earnings	\$ (7.7)	\$ 3.0	\$ (8.2)	\$ 13.5	\$ (15.6)	\$ (0.9)	\$ (0.9)	\$ 29.5
Basic and diluted (loss) earnings per share from continuing operations	\$ (0.09)	\$ (0.02)	\$ (0.13)	\$ 0.15	\$ (1.72)	\$ (0.50)	\$ (1.98)	\$ 0.38
Basic and diluted (loss) earnings per share	\$ (0.09)	\$ 0.04	\$ (0.10)	\$ 0.15	\$ (1.72)	\$ (0.50)	\$ (1.92)	\$ 0.44

Adjustments to Earnings (Loss)								
(in millions)	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2005	Q2 2005	Q3 2005	Q4 2005
One-time items and provisions included in EBITDA and EBIT	\$ -	\$ -	\$ 2.4 ¹	\$ (9.7) ²	\$ 0.7 ³	\$ 0.9 ³	\$ -	\$ 2.9 ³
Expenses associated with the redemption of the Senior Subordinated Notes	-	-	(11.2)	-	-	-	-	-
Tax recoveries	-	-	-	-	0.7 ⁴	0.7 ⁴	-	-
Tax impact of one-time items	-	-	3.2	3.5	(0.1)	(0.1)	-	(0.3)
Total one-time items and provisions	\$ -	\$ -	\$ (5.6)	\$ (6.2)	\$ 1.3	\$ 1.5	\$ -	\$ 2.6
Effect of tax rate change on future taxes	-	-	(5.8) ⁵	(6.0) ⁵	-	-	-	-
Adjustment to (loss) earnings from continuing operations	\$ -	\$ -	\$ (11.4)	\$ (12.2)	\$ 1.3	\$ 1.5	\$ -	\$ 2.6
Net recoveries from discontinued operations	-	4.9	2.4	0.1	-	-	1.2	3.9
Adjustments to net (loss) earnings	\$ -	\$ 4.9	\$ (9.0)	\$ (12.1)	\$ 1.3	\$ 1.5	\$ 1.2	\$ 6.5

1 F2006 – \$2.4 million gain from the sale of the Pool's 50% interest in the Lloydminster joint venture

2 F2006 – \$15 million provision for pension settlement for the Saskatchewan Wheat Pool/Grain Services Union Pension Plan dispute and a favourable \$5.3 million actuarial adjustment to the Hourly Employees' Retirement Plan

3 F2005 – Q1 - Ontario capital tax refund, Q2 - settlement of a property tax dispute, Q4 - interest income on corporate income tax refunds

4 F2005 – Q1 - Ontario capital tax refund, Q2 - receipt of a research and development investment tax credit

5 F2006 – Reflects the effect of lower future corporate tax rates as a result of federal and provincial tax policy changes

Adjusted Consolidated Quarterly Results

(in millions except per share information)	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2005	Q2 2005	Q3 2005	Q4 2005
EBITDA	\$ -	\$ 11.1	\$ 15.1	\$ 48.6	\$ (2.8)	\$ 13.1	\$ 11.5	\$ 44.2
EBIT	\$ (6.8)	\$ 4.1	\$ 8.2	\$ 41.5	\$ (9.2)	\$ 6.2	\$ 5.1	\$ 37.5
(Loss) earnings from continuing operations	\$ (7.7)	\$ (1.9)	\$ 0.8	\$ 25.6	\$ (16.9)	\$ (2.4)	\$ (2.1)	\$ 23.0
Net (loss) earnings	\$ (7.7)	\$ (1.9)	\$ 0.8	\$ 25.6	\$ (16.9)	\$ (2.4)	\$ (2.1)	\$ 23.0
Basic and diluted (loss) earnings per share from continuing operations before accretion and inducement premium	\$ (0.09)	\$ (0.02)	\$ 0.01	\$ 0.28	\$ (1.41)	\$ (0.20)	\$ (0.11)	\$ 0.34
Basic and diluted (loss) earnings per share before accretion and inducement premium	\$ (0.09)	\$ (0.02)	\$ 0.01	\$ 0.28	\$ (1.41)	\$ (0.20)	\$ (0.11)	\$ 0.34

Quarterly Seasonality

In the Grain Handling and Marketing segment, the Pool actively buys and receives grain from customers on a relatively consistent basis throughout the year. Grains and oilseeds are tested, cleaned, dried, and blended in preparation for shipping and the Pool extracts a margin for these services. Pool merchandisers market non-Board grains and oilseeds directly to destination customers and buy and sell CWB grains as an Agent and Accredited Exporter of the CWB. The level of shipments depends on demand from destination customers, the CWB export program and producer marketing decisions, which are driven by commodity price expectations, harvest pressures and cash flow requirements. Segment sales from Grain Handling and Marketing in fiscal 2006 were higher than the previous year in each quarter due to higher production levels, strong shipments and a more robust export program.

The seasonal trends in Agri-products sales directly relate to the life cycle of the crop with the fourth quarter being the strongest. In the last quarter of fiscal 2006, 63% of the segment's annual sales were generated when producers purchased their seed requirements, fertilizer and crop protection products. Fourth quarter sales were also higher than the previous year, in part because some of the third quarter sales were delayed until the fourth quarter, due to wet spring conditions, and producer indecision on what crops to grow because of historically low commodity prices.

Agri-food Processing sales were consistent quarter-to-quarter but higher than the previous year reflecting a trend of continuing growth in finished oat product sales.

Fiscal 2006 earnings from continuing operations before one-time items were higher than fiscal 2005 due to strong results from the Grain Handling and Marketing segment and Can-Oat Milling partially offset by lower earnings from the Agri-products segment.

Quarterly Business Trends in Grain Handling and Marketing and Agri-products Segments

First Quarter – August 1 to October 31

- Grain Handling and Marketing segment – On average, approximately 25% of annual grain deliveries, 22% of grain shipments, 21% of Vancouver exports and 31% of Thunder Bay exports occur in the first quarter.
- Agri-products segment – On average, the Pool generates 11% of its agri-products sales in the first quarter. Producers purchase crop protection products and equipment from the Pool in

preparation for harvest. After harvest, producers have their soil tested for nutrient levels and begin to purchase fertilizers from the Pool. The fall fertilizer application restores nutrients in the soil that are needed for spring planting.

Second Quarter – November 1 to January 31

- Grain Handling and Marketing segment – On average, approximately 26% of annual grain deliveries, 26% of grain shipments, 26% of Vancouver exports, and 23% of Thunder Bay exports occur in the second quarter. Shipments through the Pool's Thunder Bay port terminal end in late December when the St. Lawrence Seaway is closed for the winter months.
- Agri-products segment – On average, the Pool generates 15% of its agri-products sales in quarter two and receives pre-purchase payments from customers for their spring agri-products. This is an important sales promotion and marketing period for the Pool. Producers have completed harvest and are able to assess the performance of their seed - important in determining what crops will be planted in the spring.

Third Quarter – February 1 to April 30

- Grain Handling and Marketing segment – On average, approximately 22% of annual grain deliveries, 24% of grain shipments, 28% of Vancouver exports, and 14% of Thunder Bay exports occur in the third quarter. Exports continue to flow through the Vancouver port terminal and by the end of the third quarter Thunder Bay is once again fully operational.
- Agri-products segment – On average, the Pool generates 12% of its agri-product sales in the third quarter. During this time, the Pool is launching its spring promotional programs and is finalizing its agri-product purchases to ensure product is in place to meet the heavy demand of the spring selling season. Agronomic specialists are actively working with producers to develop their operational plans, customizing solutions based on the specific needs of the producer.

Fourth Quarter – May 1 to July 31

- Grain Handling and Marketing segment – On average, approximately 27% of annual grain deliveries, 28% of grain shipments, 25% of Vancouver exports, and 32% of Thunder Bay exports occur in quarter four. July is a strong month for grain deliveries as farmers sell their old crop off and move it off farm to make room for the new crop that is harvested from late August to the end of October.
- Agri-products segment – On average, the Pool generates 62% of its agri-product sales in quarter four. Producers take delivery of pre-purchased agri-products and begin planting and tending to their crops. Producers carefully monitor crops for insects, weeds and disease during June and July and will apply various crop protection products depending upon these factors. Equipment sales begin at the end of the quarter as producers prepare their storage requirements for the harvest season.

6.1 Consolidated Quarterly Operating Results

Strong sales in each of the Pool's three business segments drove fourth quarter sales and other operating revenues to \$602.1 million, a 10.1% increase from \$546.7 million last year. Grain Handling and Marketing sales climbed 15%, Agri-product sales rose 6.4%, and Agri-food Processing posted an 11.8% improvement from the levels of the fiscal 2005 fourth quarter.

Segment EBITDA or earnings before interest, taxes, depreciation, and amortization was \$59.2 million for the fourth quarter of 2006, an increase from \$55.2 million generated in the prior year's quarter. All three of the Pool's wholly owned operations, including Grain Handling and Marketing, the Pool's retail agri-products network and Can-Oat Milling posted fourth quarter improvements, which more than offset lower contributions from Prairie Malt Limited and WCFL. Additional operating details are available in the segment discussion beginning with Section 6.1.1.

The following table reflects one-time items that were recorded in the Grain Handling and Marketing segment in the final quarters of fiscal 2006 and fiscal 2005.

Adjusted Results	Fourth	One-	Adjusted	Fourth	One-	Adjusted
(in millions)	Quarter	time	Fourth	Quarter	time	Fourth
	2006	Items	Quarter	2005	Items	Quarter
			2006			2005
Grain Handling and Marketing	\$ 23.3	\$ 5.3	\$ 18.0	\$ 17.2	\$ 2.9	\$ 14.3
Agri-products	31.8	-	31.8	34.4	-	34.4
Agri-food Processing	4.1	-	4.1	3.6	-	3.6
Segment EBITDA	\$ 59.2	\$ 5.3	\$ 53.9	\$ 55.2	\$ 2.9	\$ 52.3

Fiscal 2006's fourth quarter EBITDA included \$5.3 million in the Grain Handling and Marketing segment for an actuarial adjustment relating to the Hourly Employees' Retirement Plan, which reduced salaries, wages, and benefits expense. In last year's fourth quarter, the Pool recorded \$2.9 million in the Grain Handling and Marketing segment to reflect interest income on corporate income tax refunds.

The table below illustrates the impact of the quarters' one-time items including the provision for pension settlement, together with corporate expenses on the Pool's quarterly financial performance.

Consolidated EBITDA was \$38.9 million versus \$47.1 million for the fourth quarters of fiscal 2006 and fiscal 2005 respectively. Consolidated EBITDA before one-time items was \$48.6 million in the fourth quarter of fiscal 2006, up from \$44.2 million for the same period in fiscal 2005.

Adjusted Results	Fourth	One-	Adjusted	Fourth	One-	Adjusted
(in millions)	Quarter	time	Fourth	Quarter	time	Fourth
	2006	Items	Quarter	2005	Items	Quarter
			2006			2005
Segment EBITDA	\$ 59.2	\$ 5.3	\$ 53.9	\$ 55.2	\$ 2.9	\$ 52.3
Corporate expenses	(5.3)	-	(5.3)	(8.1)	-	(8.1)
Provision for pension settlement	(15.0)	(15.0)	-	-	-	-
Consolidated EBITDA	\$ 38.9	\$ (9.7)	\$ 48.6	\$ 47.1	\$ 2.9	\$ 44.2

Corporate expenses in the fourth quarter of fiscal 2006 were \$5.3 million, down from \$8.1 million in the prior year's quarter mainly due to lower capital taxes and lower salaries, wages, and benefits. The Pool recorded the annual amount of the fiscal 2005 Saskatchewan capital taxes in the last four months of the year, a result of becoming a Canadian Business Corporation in March 2005. In fiscal 2006, the taxes were recorded throughout the year.

The Pool also recorded a \$15 million provision in this year's fourth quarter reflecting management's best estimate of the potential minimum cost to the Pool of resolving a dispute regarding the Saskatchewan Wheat Pool/Grain Services Union Pension Plan solvency deficiency (see 12.5 in the Critical Accounting Estimates section of the Management's Discussion and Analysis and Note 19b in the Notes to the Consolidated Financial Statements for further details). Management made its estimate based on a range of potential outcomes that could include a negotiated settlement, litigation, or payment of all or a portion of the deficiency payments.

Adjusted Results	Fourth Quarter 2006	One- time Items	Adjusted Fourth Quarter 2006	Fourth Quarter 2005	One- time Items	Adjusted Fourth Quarter 2005
(in millions except per share data)						
Consolidated EBITDA	\$ 38.9	\$ (9.7)	\$ 48.6	\$ 47.1	\$ 2.9	\$ 44.2
Amortization	(7.1)	-	(7.1)	(6.7)	-	(6.7)
EBIT	\$ 31.8	\$ (9.7)	\$ 41.5	\$ 40.4	\$ 2.9	\$ 37.5
Interest expense	(2.7)	-	(2.7)	(10.0)	-	(10.0)
Consolidated EBT	\$ 29.1	\$ (9.7)	\$ 38.8	\$ 30.4	\$ 2.9	\$ 27.5
Tax impact of one-time items and tax recoveries	-	3.5	(3.5)	-	(0.3)	0.3
Corporate taxes	(15.7)	(6.0)	(9.7)	(4.8)	-	(4.8)
Earnings (loss) from continuing Operations	\$ 13.4	\$ (12.2)	\$ 25.6	\$ 25.6	\$ 2.6	\$ 23.0
Discontinued operations	0.1	0.1	-	3.9	3.9	-
Net earnings (loss)	\$ 13.5	\$ (12.1)	\$ 25.6	\$ 29.5	\$ 6.5	\$ 23.0
Weighted average shares	89.969		89.969	68.110		68.110
Earnings per share						
Continuing operations	\$ 0.15		\$ 0.28	\$ 0.38		\$ 0.34
Net earnings	\$ 0.15		\$ 0.28	\$ 0.44		\$ 0.34

EBIT in the fourth quarter of fiscal 2006 was \$31.8 million versus \$40.4 million in fiscal 2005. The Pool recorded EBIT before one-time items of \$41.5 million compared to \$37.5 million in the fourth quarter of fiscal 2005.

Interest expense in the fiscal 2006 fourth quarter was \$2.7 million, down from \$10 million in the prior year's period. Cash interest expenses fell 35.1% to \$2.2 million, reflecting substantially lower long-term debt levels in the final quarter of fiscal 2006. The Pool recorded non-cash interest of \$0.5 million, well below \$6.5 million for the same three-month period in fiscal 2005. The variance resulted primarily from writing off \$3.9 million of financing costs last year when the Pool repaid its \$100 million Senior Secured Notes in June 2005. The remaining \$2.1 million non-cash variance primarily related to accretion recorded in the prior year's fourth quarter for the Pool's \$150 million Senior Subordinated Notes, which were repaid on May 5, 2006. Accretion is an accounting concept whereby discounted debt balances are increased on a systematic basis to eventually equal the face value at maturity.

Corporate tax expense rose \$10.8 million quarter-over-quarter to \$15.7 million and included \$6 million that was recorded to reflect the effect of lower future federal corporate tax rates. In the fourth quarter of 2005, corporate taxes were \$4.8 million.

There were no significant recoveries from discontinued operations in the fourth quarter of fiscal 2006. Last year's fourth quarter included a \$3.8 million net recovery for a previously held investment in hog production. The recovery resulted from filings under the Canadian Agriculture Income Stabilization (CAIS) program, a joint federal/provincial business risk management program.

Before one-time items, net earnings for the final three months of the year were \$25.6 million, compared to \$23 million in the same period a year ago. Net earnings in the fourth quarter of fiscal 2006 were \$13.5 million compared to \$29.5 million in the prior year's quarter.

6.1.1 Grain Handling and Marketing Segment

Producer deliveries to the Pool's primary elevator network were up 16.2% over last year's fourth quarter to 2.1 mmt. The larger than average crop produced last year in Saskatchewan – the Province where the Pool's operations are most concentrated – translated into higher deliveries to our facilities in the fourth quarter of fiscal 2006.

The Pool's total grain shipments rose to 2 mmt in the fourth quarter of fiscal 2006, up 6.8% from the same quarter last year. Non-Board shipments climbed 17.3% to 0.8 mmt, while CWB shipments were unchanged at 1.2 mmt.

The Pool shipped 1.4 mmt through its Vancouver and Thunder Bay export terminals in the final three months of fiscal 2006, 16.9% above the 1.2 mmt shipped in the prior year period. The bulk of this increase was achieved through the Pool's joint venture at the port of Vancouver, a key gateway to the Asia-Pacific market.

Grain Handling and Marketing Volumes For the Quarter Ended July 31			
('000s metric tonnes)	2006	2005	Increase
Primary elevator receipts	2,146	1,847	16.2%
Primary elevator shipments			
CWB grains	1,191	1,187	0.3%
Non-Board grains and oilseeds	853	727	17.3%
Total primary elevator shipments	2,044	1,914	6.8%
Port terminal receipts			
Vancouver	835	669	24.8%
Thunder Bay	520	490	6.1%
	1,355	1,159	16.9%
Share of Prince Rupert Grain	227	199	14.1%
Total port terminal receipts	1,582	1,358	16.5%

The Pool calculates gross margin for the Grain Handling and Marketing segment based on its wholly owned assets, which excludes Prince Rupert Grain (PRG). Gross margin rose to \$21.90 per tonne in the fourth quarter from \$20.39 per tonne in the same period last year, which included \$1.53 per tonne in one-time items. Excluding these one-time items, the \$3.04 per tonne improvement stemmed mainly from higher wheat and durum margins – attained through stronger blending gains and terminal margins, as well as increased grain-drying revenue. These improvements were partially offset by lower malt barley margins caused by a poor quality crop.

EBITDA from the Grain Handling and Marketing segment climbed to \$23.3 million from \$17.2 million in the last quarter of fiscal 2005. EBITDA before one-time items was \$18 million compared to \$14.3 million in the same period last year. The increase resulted mainly from higher shipments and improved margins.

Segment EBIT rose to \$20.4 million during the quarter, which compares to \$14.3 million in the final quarter of fiscal 2005. EBIT before one-time items was up 32.5% to \$15.1 million in the fourth quarter of fiscal 2006 from \$11.4 million in the comparable period last year.

6.1.2 Agri-products Segment

Agri-products' fourth quarter sales were up in fiscal 2006 from the same period last year, despite excessive moisture in northeastern Saskatchewan, an important market to the Pool. In the spring of 2006, wet weather in this region delayed seeding, reduced fertilizer application, and prevented producers from seeding approximately 1.7 million acres.

Our Agri-products segment generated sales of \$340.7 million in the fiscal 2006 fourth quarter, compared to \$320.3 million for the same period last year. The increase, in part, reflects sales that normally occur in the third quarter but were delayed to the fourth quarter, due to wet spring conditions, and producer indecision on what crops to grow because of historically low commodity

prices. In addition, an adequate supply of quality seed this year, compared to the spring of 2005, allowed producers to delay seed purchasing decisions until planting conditions improved in the fourth quarter. Higher fertilizer selling prices than in the previous year's fourth quarter also contributed to the rise in sales.

Fertilizer sales through our retail operations increased 15.2% in the fiscal 2006 fourth quarter from the same period last year, due to higher sales volumes and prices. Our proportionate share of sales through WCFL was 7.3% below the level of the previous year's quarter, mainly the result of decreased sales volumes.

Sales of crop protection products climbed \$2.6 million from last year's fourth quarter, as higher volumes were offset somewhat by lower prices, particularly in glyphosate products.

Agri-products Sales and Other Operating Revenues		
For the Quarter Ended July 31		
(in millions)	2006	2005
Fertilizer products	\$ 186.1	\$ 176.7
Crop protection products	116.4	113.8
Other sales and operating revenues	38.2	29.8
Total	\$ 340.7	\$ 320.3

Agri-products EBITDA in the fourth quarter of fiscal 2006 was \$31.8 million compared to \$34.4 million in the same period last year. Our retail operations contributed \$21.3 million in EBITDA, up from \$18.3 million in the fourth quarter last year. WCFL contributed \$10.5 million in the fourth quarter of fiscal 2006 to EBITDA compared to \$16.1 million in the previous year, a result of margin pressures in fertilizer.

Fertilizer margins in the fiscal 2006 fourth quarter fell in both our retail operations and from WCFL. This was mainly because of an industry-wide issue; natural gas prices began to rise in late summer and early fall of 2005, which resulted in higher production costs for companies such as WCFL. As a result, normal margins could not be achieved on sales in the fourth quarter of 2006. WCFL's margin contribution dropped 30.2%, mainly due to lower fertilizer sales volumes and prices. The Pool's fertilizer retail margins were lower than in last year's fiscal fourth quarter, reflecting competitive pricing on high cost product, partially offset by higher sales volumes.

In the seed business, margins were higher mainly due to higher volumes because purchase decisions were delayed to the fourth quarter. Crop protection product margin dollars were higher than they were a year ago, as greater sales volumes more than offset lower selling prices.

EBIT for the Agri-products segment in the final quarter of 2006 was \$29 million, down from \$31.8 million in the prior year period. EBIT from our retail operations was \$20.6 million compared to \$17.6 million in last year's fourth quarter, and WCFL's EBIT contribution was \$8.4 million versus \$14.2 million for the same respective periods.

Expenses for the Pool's retail operations in the fourth quarter of fiscal 2006 were 8.5% lower than the same period last year, primarily because of stronger collections of outstanding accounts from the 2005 agri-products credit program.

6.1.3 Agri-food Processing Segment

The Agri-food Processing segment includes wholly owned Can-Oat Milling and 42.4% owned Prairie Malt Limited. Segment sales for the final quarter were \$32.2 million, 11.8% higher than the \$28.8 million reported in the same period of fiscal 2005. Prairie Malt's sales were down 4.6% from the corresponding quarter last year. Can-Oat's sales increased 18.8% period-over-period, based on

higher volumes of finished oat products, driven by strong demand for whole grains from manufacturers of cereals and breakfast bars.

EBITDA for the segment rose to \$4.1 million in the fourth quarter from \$3.6 million in the same period last year. Can-Oat's EBITDA contribution grew 45.8% due to improved margins from higher value products, which resulted from increased sales volumes and greater production yields. Prairie Malt's EBITDA contribution declined as a result of ongoing margin pressure related to higher processing and energy costs and a stronger Canadian dollar. The Agri-food Processing segment EBIT in the fiscal 2006 fourth quarter improved to \$2.8 million from \$2.4 million in the same period last year.

In the final quarter of fiscal 2006, Can-Oat extended its operations into Alberta by purchasing a milling facility that processes oats, organic products, and barley ingredients. This expansion enhances Can-Oat's strategic position, diversifies its raw material sourcing, and creates opportunities to leverage technologies, expertise and efficiencies across its western Canadian network.

7. ANNUAL FINANCIAL INFORMATION

7.1 Summary of Consolidated Results

Fiscal 2006 consolidated sales and other operating revenues were \$1.6 billion, up from \$1.4 billion in the previous year. Sales grew in all three segments with Grain Handling and Marketing segment achieving the largest year-over-year increase at 21.5%, followed by the Agri-products segment at 5.1% and the Agri-food Processing segment at 3.2%.

The Pool's three operating segments generated \$105.9 million in EBITDA for fiscal 2006 compared to \$92.8 million in 2005. A solid performance from the Grain Handling and Marketing segment accounted for 57.1% of the Pool's operating EBITDA, or \$60.5 million.

EBITDA from the Agri-products segment was \$27 million in fiscal 2006, down from \$39.3 million in fiscal 2005 because of margin pressures brought about by increased retail competition, a lack of price appreciation of fertilizer prices, and more sales of lower margin product.

Agri-food Processing produced \$18.4 million of the Pool's segment EBITDA in fiscal 2006, an improvement of 11.6% from fiscal 2005 with Can-Oat's contribution up 24.5% over last year. A complete description of each segment's operating performance begins in section 7.1.1.

There were \$7.7 million of one-time items included in the Pool's segment EBITDA in fiscal 2006. Fiscal 2005 results included \$4.5 million of one-time items (see table below).

Adjusted Results (in millions)	2006	One-time Items	Adjusted 2006	2005	One-time Items	Adjusted 2005
Grain Handling and Marketing ^{1, 2}	\$ 60.5	\$ 7.3	\$ 53.2	\$ 37.1	\$ 4.5	\$ 32.6
Agri-products ³	27.0	0.4	26.6	39.3	-	39.3
Agri-food Processing	18.4	-	18.4	16.4	-	16.4
Segment EBITDA	\$ 105.9	\$ 7.7	\$ 98.2	\$ 92.8	\$ 4.5	\$ 88.3

1 A gain of \$2 million from the sale of the Pool's 50% interest in the Lloydminster joint venture was recorded in fiscal 2006 together with a \$5.3 million actuarial adjustment to the Hourly Employees' Retirement Plan.

2 In fiscal 2005, an Ontario capital tax refund, settlement of a property tax dispute, and interest income on corporate income tax refunds were recorded.

3 The Agri-products segment recorded its share of the gain from the sale of the Lloydminster joint venture in fiscal 2006.

In order to highlight the Pool's fiscal 2006 performance, the Company has provided additional detail on results prior to the one-time items noted above. Readers should refer to Section 7.2 - Selected Annual Financial Information for additional details on one-time items and their impact on the financial statements for the past three years.

Adjusted Results		One-time	Adjusted		One-time	Adjusted
(in millions)	2006	Items	2006	2005	Items	2005
Segment EBITDA	\$105.9	\$ 7.7	\$ 98.2	\$ 92.8	\$ 4.5	\$ 88.3
Corporate expenses	(23.4)	-	(23.4)	(22.3)	-	(22.3)
Provision for pension settlement	(15.0)	(15.0)	-	-	-	-
Consolidated EBITDA	\$ 67.5	\$ (7.3)	\$ 74.8	\$ 70.5	\$ 4.5	\$ 66.0

Corporate expenses for fiscal 2006 were \$23.4 million compared to \$22.3 million last year. In fiscal 2006, the Pool began funding the Western Farm Leadership Co-operative's business plan and those costs, together with regular salary increases, are the primary reasons for the slight increase this year.

Consolidated EBITDA for the twelve-month period was \$67.5 million versus \$70.5 million in fiscal 2005. Consolidated EBITDA before one-time items was \$74.8 million, up from \$66 million last year.

The Pool recorded a provision for pension settlement of \$15 million in its final quarter of fiscal 2006 as previously discussed. The table above illustrates the impact of the provision for pension settlement and the one-time items on consolidated EBITDA.

Adjusted Results		One-time	Adjusted		One-time	Adjusted
(in millions except per share data)	2006	Items	2006	2005	Items	2005
Consolidated EBITDA	\$ 67.5	\$ (7.3)	\$ 74.8	\$ 70.5	\$ 4.5	\$ 66.0
Amortization ¹	(27.8)	-	(27.8)	(26.4)	-	(26.4)
EBIT	\$ 39.7	\$ (7.3)	\$ 47.0	44.1	\$ 4.5	39.6
Interest expense	(21.0)	-	(21.0)	(37.1)	-	(37.1)
Expenses associated with the redemption of the Senior Subordinated Notes	(11.2)	(11.2)	-	-	-	-
EBT	\$ 7.5	\$ (18.5)	\$ 26.0	\$ 7.0	\$ 4.5	\$ 2.5
Tax impact of one-time items and tax recoveries	-	6.7	(6.7)	-	0.9	(0.9)
Corporate taxes ²	(14.3)	(11.8)	(2.5)	-	-	-
(Loss) earnings from continuing operations	\$ (6.8)	\$ (23.6)	\$ 16.8	\$ 7.0	\$ 5.4	\$ 1.6
Discontinued operations	7.3	7.3	-	5.1	5.1	-
Net earnings (loss)	\$ 0.5	\$ (16.3)	\$ 16.8	\$ 12.1	\$ 10.5	\$ 1.6
Weighted average shares	84.343		84.343	28.103		28.103
Earnings (loss) per share						
Continuing operations ³	\$ (0.08)		\$ 0.20	\$ (1.44)		\$ 0.06
Net earnings (loss) ³	\$ 0.01		\$ 0.20	\$ (1.26)		\$ 0.06

1 Rounded for the purpose of this table

2 Reflects the effect of lower future corporate tax rates as a result of federal and provincial tax policy changes

3 The calculations in the adjusted 2005 column exclude the inducement premium and accretions related to the equity component of the Convertible Subordinated Notes.

Amortization of property, plant, and equipment and certain other long-term assets was \$27.7 million in fiscal 2006 compared to \$26.5 million in fiscal 2005. Higher amortization year-over-year reflected ongoing investment in property, plant, and equipment.

EBIT in fiscal 2006 was \$39.7 million versus \$44.1 million in fiscal 2005. EBIT before one-time items was \$47 million and \$39.6 million for the respective years.

Financing expenses in fiscal 2006 included interest expense and expenses associated with the redemption of the Senior Subordinated Notes. Interest expense was \$21 million compared to \$37.1 million in fiscal 2005.

The cash component of interest expense in fiscal 2006 was \$17.5 million, down from \$21.7 million in the prior year reflecting both lower short-term borrowing levels and the reduction of long-term debt. The non-cash interest expense for fiscal 2006 was \$3.5 million, which included \$1.8 million of accretion on term debt and \$1.7 million related to the amortization of deferred financing costs. The non-cash interest expense in fiscal 2005 was \$15.4 million.

There was \$11.2 million in fiscal 2006 financing expenses associated with the redemption of previously outstanding Senior Subordinated Notes. An early redemption premium of \$3 million was paid in cash. The remaining \$8.2 million in non-cash charges related to the adjustment of the carrying value of the Senior Subordinated Notes to their \$150 million face value.

Corporate taxes in fiscal 2006 rose \$14.3 million from nil last year. The increase included \$11.8 million that the Pool recorded to reflect the effect of lower future corporate tax rates as a result of federal and provincial government tax policy changes.

Included in both years were after-tax recoveries from discontinued operations: \$7.3 million in fiscal 2006 and \$5.1 million in fiscal 2005. The recoveries in fiscal 2006 and \$3.8 million of the recoveries in fiscal 2005 were related to filings under the Canadian Agricultural Income Stabilization Program (CAIS), a joint federal/provincial risk management program.

Net earnings before one-time items were \$16.8 million, a significant increase from \$1.6 million in fiscal 2005. Net earnings in fiscal 2006 were \$0.5 million down from \$12.1 million in the prior year.

7.1.1 Grain Handling and Marketing Segment

The Pool's total shipments rose 15.5% year-over-year, exceeding the 12.3% improvement posted by the industry as a whole. Our total shipments climbed to 7.9 mmt in fiscal 2006 from 6.9 mmt last year. The main reason for the Pool's relative strength was its success in marketing non-Board commodities. Our non-Board shipments, mainly canola and peas, were 39% higher year-over-year, compared to a 20.9% improvement for the industry as a whole. At the same time, the Pool's CWB shipments increased 2% while total industry shipments were up 7%. CWB grains represented just 56.3% of the Pool's total shipments in fiscal 2006 compared to 63.7% last year.

The Pool chose to limit its participation in the tendering process for CWB commodities in fiscal 2006 in order to maximize margins and focus on attractive opportunities in the non-Board grains market. In addition, the CWB favoured producer car loading facilities, farmers can load their own grain onto railcars, thereby bypassing country elevator systems operated by the Pool and other grain handlers.

Producers delivered 7.7 mmt of grains and oilseeds to Pool and AgPro facilities in fiscal 2006, up from 6.8 mmt in fiscal 2005. The improvement resulted largely from better growing conditions in Saskatchewan, which increased production available to us.

Our consolidated market share across the western provinces was 23%, on par with last year. Market share can fluctuate depending on the success of the CWB export program and the timing in each province of its contract calls; the Pool and other handlers purchase grain on behalf of the CWB in order to satisfy contract calls.

**Grain Handling and Marketing Volumes
For the Years Ended July 31**

('000s metric tonnes)	2006	2005	Increase (Decrease)
Primary elevator receipts	7,721	6,813	13.3%
Primary elevator shipments			
CWB grains	4,452	4,363	2.0%
Non-Board grains and oilseeds	3,462	2,490	39.0%
Total primary elevator shipments	7,914	6,853	15.5%
Port terminal receipts			
Vancouver	3,641	2,641	37.9%
Thunder Bay	1,463	1,493	(2.0%)
	5,104	4,134	23.5%
Share of Prince Rupert Grain	913	715	27.7%
Total port terminal receipts	6,017	4,849	24.1%

The combined volumes of the Pool's Vancouver and Thunder Bay ports rose to 5.1 mmt in fiscal 2006 from 4.1 mmt last year. Non-Board terminal handlings increased 57.9%, while CWB terminal handlings were up just 3.2%, despite better quality and slightly larger 2006 production of wheat and durum. Exports through our Vancouver port terminal climbed 37.9% during fiscal 2006 to 3.6 mmt, due to robust canola and pea movement and greater efficiencies achieved through our joint venture operations with JRI.

The Pool and JRI operate adjacent port facilities in Vancouver. By managing grain stocks together, we created efficiencies with improved coordination of railways, better utilization of storage capacity, a reduction in the total number of commodity segregations, and an increase in overall operating capacity. Western Canadian farmers now have ongoing access to greater and more efficient capacity in years of strong export movement. The joint venture is expected to come before a federal Competition Tribunal in the spring of 2007 for regulatory approval.

On a full year basis, the Pool's share of shipments through the Prince Rupert Grain (PRG) terminal (owned by a consortium that includes the Pool, Agricore United, Cargill, and JRI) was up 27.7% because of the CWB's preference for shipping through that location.

Including one-time items of \$0.25 per tonne this year and \$0.65 per tonne last year, the gross margin for fiscal 2006 was up 8.3% to \$20.26 per tonne from \$18.71 per tonne last year. The improvement reflected higher canola margins; blending gains; more efficient asset and pipeline utilization, particularly at the Port of Vancouver; and additional drying revenue.

EBITDA rose to \$60.5 million in fiscal 2006 from \$37.1 million in fiscal 2005. EBITDA before one-time items was \$53.2 million in fiscal 2006, a 63.2% increase from the \$32.6 million recorded in fiscal 2005.

EBIT was robust as well, rising to \$48.9 million from \$25.8 million. Before one-time items, EBIT was \$41.7 million in fiscal 2006 versus \$21.3 million in fiscal 2005. Higher shipments and improved margin contributed to the increases.

From a cost perspective, expenses were up year-over-year. However, a \$5.3 million favourable actuarial adjustment to the Hourly Employees' Retirement Plan offset an increase in salaries, wages and benefits expense. During the year, the Pool expensed \$3.2 million of grain volume insurance premiums. There was no grain volume insurance expensed in fiscal 2005. In total, the cost per tonne for grain handling and marketing in fiscal 2006 dropped to \$12.86 per tonne from \$13.46 per tonne a year earlier.

7.1.2 Agri-products Segment

Agri-product sales rose 5.1% to \$540.3 million in fiscal 2006 from \$514.2 million in fiscal 2005. The Pool's retail sales were 7.8% higher than last year. Fertilizer and crop protection products accounted for 81.7% of the sales from our retail operations this year, about the same as last year.

Retail fertilizer sales were up 12.8% in fiscal 2006 due to higher sales volume and prices. The Pool's proportionate share of WCFL's sales decreased slightly in fiscal 2006, reflecting a decrease in volumes by 7.6% that was offset by rising fertilizer prices year-over-year.

Crop protection product sales improved 2.7% in fiscal 2006 from last year's level, based on higher volumes somewhat offset by lower prices. Seed sales were up 4.2% year-over-year, primarily due to greater demand for wheat and durum seed.

Consolidated sales and operating revenues for the various components of our Agri-products segment are outlined in the table below.

Agri-products Sales and Other Operating Revenues		
For the Year Ended July 31		
(in millions)	2006	2005
Fertilizer products	\$ 336.7	\$ 318.0
Crop protection products	133.7	130.2
Other sales and operating revenues	69.9	66.0
Total	\$ 540.3	\$ 514.2

EBITDA was \$27 million in fiscal 2006, compared to \$39.3 million in fiscal 2005. In our retail operations, EBITDA was \$9.2 million this year, compared to \$14.1 million in fiscal 2005. WCFL contributed \$17.8 million to the segment EBITDA in fiscal 2006, down 29.4% from \$25.2 million in the previous year, mainly a result of lower margins.

EBIT was \$16 million in fiscal 2006 versus \$29.3 million the previous year. Retail operations had EBIT of \$6.3 million down from \$11.6 million in the previous fiscal year, while EBIT contributions from WCFL were \$9.7 million in fiscal 2006 compared to \$17.7 million last year.

Fertilizer margins fell on a consolidated basis due to lower sales volumes from WCFL and weather patterns that unfavourably affected prices. Natural gas is a key input in manufacturing fertilizer. In recent years, changes in the pricing of these two items were strongly correlated. Typically, during the summer months, excess supply keeps natural gas prices and fertilizer manufacturing costs down. The opposite effect occurs in winter, when supplies become tighter. The Pool locks in a portion of its fertilizer prices in the fall because they generally increase during the spring, allowing for margin growth opportunities in the key earnings season for this segment.

During fiscal 2006, the impact of Hurricane Katrina reversed the normal pricing patterns for natural gas, causing prices to increase in the late summer and early fall months when companies like the Pool lock in prices in advance of selling. North America then experienced an unusually warm winter, which reduced natural gas consumption and prices. The price appreciation that usually occurs in the spring following cold winters did not take place in 2006 and, consequently, margins were not as high as in the previous year.

Crop protection product margins were on par with fiscal 2005 levels. A change in seed product mix and competitive pricing contributed to lower margins from that product line.

On the expense side, salaries and wages rose as vacant positions were filled. However, these costs were offset by a lower loan loss provision than in fiscal 2005 due to stronger collections of outstanding accounts in the 2005 agri-products credit program.

7.1.3 Agri-food Processing Segment

Agri-food Processing sales were up 3.2% at \$122.3 million in fiscal 2006 from \$118.5 million last year. Wholly owned Can-Oat Milling's sales rose 7.5% in fiscal 2006. Can-Oat's improvement was driven by higher demand for finished products such as oat flakes, bran and bran flour. Demand for these products by cereal and breakfast bar manufacturers continues to grow, influenced by the increasingly health-conscious whole grain consumer market.

The Pool's share in Prairie Malt's sales fell 7.7% in fiscal 2006 due to a stronger Canadian dollar and excess capacity in the North American and European malt industries.

Segment EBITDA was \$18.4 million for fiscal 2006, up from \$16.4 million in the prior year. EBIT for the segment was \$13.2 million in fiscal 2006 versus \$11.3 million in fiscal 2005.

Can-Oat's EBITDA increased 24.5% over fiscal 2005. Higher sales volumes combined with yield improvements drove Can-Oat's EBITDA growth in fiscal 2006. Prairie Malt's EBITDA was down due to pricing pressures related to excess capacity in the malt industry, as well as higher processing costs.

7.1.4 Outlook

The Pool is well positioned heading into fiscal 2007. The outlook for the Grain Handling and Marketing segment is positive. Harvest was virtually complete by the end of September, which is approximately one month ahead of schedule. While hot weather in July and August matured the crop quickly and allowed farmers to harvest early, the weather did affect crop yields. On October 5, 2006, Statistics Canada released its estimate of the 2006-07 crop, projecting western Canadian production of the six major grains and oilseeds at 48.1 mmt, which is up from the 10-year average but down 9.8% from last year's 53.3 mmt. It is expected that additional volumes will be available in 2007 due to high carry-over of on-farm stocks. The September 12, 2006 Statistics Canada estimate of on-farm carry-over from 2006 is at 9.5 mmt, 23% higher than a year earlier and nearly double the 5.3 mmt typically carried over from year-to-year.

One of the key business drivers that influences margins in the grain sector is quality. The 10-year average for milling quality spring wheat, graded in the top two categories, is 86%. This year's hotter than average growing season produced high quality crops. In fact, the Pool's preliminary estimates suggest that approximately 90% of the wheat crop (spring wheat and durum) will grade in the top two categories. This compares favourably to last year's crop, in which top quality grades represented just 43% of the total. As a result, the Pool expects more blending opportunities in fiscal 2007 because there is a high carry-over of lower graded stock from the previous year.

Good quality and strengthening commodity prices bode well for Canadian agricultural exports. Commodity prices have improved because of tightening world supplies and poor yields and crop quality available from competing countries like Australia and the United States. Accordingly, the Pool expects robust exports in fiscal 2007. Industry sources, however, estimate western Canadian exports for fiscal 2007 at 25.8 mmt, on par with fiscal 2006. The Pool believes these estimates are conservative, particularly for wheat and barley given the exceptional quality and positive demand fundamentals in the global marketplace.

For the Agri-products segment, the early harvest is positive for farmers who require time to undertake their fall fieldwork in advance of winter snowfall. Farmers will apply crop protection products to their land to control fall weed growth and will put down fertilizer to replenish nutrients. Both activities depend on soil moisture levels; rains following harvest were adequate for this work to be done. In any event, the spring (particularly the Pool's fourth quarter) remains the most important sales and earnings season for this core business and its success will depend on seeding decisions, soil moisture content and growing conditions next year particularly in May and June. We expect that competitive pricing in agri-products sales will continue to affect margin growth in this business during

fiscal 2007. Natural gas prices and its influence on fertilizer pricing is also a key margin driver for the agri-products business. Natural gas prices have come down this fall. However, a cold winter typically drives up costs and prices. Natural gas supply and demand fundamentals will influence contributions from the Pool's joint venture, WCFL.

Our oat processing operations also anticipate a good year. The Pool believes that the health conscious consumer market is growing and, as a result, demand for whole grain products is expected to continue. Can-Oat Milling is positioning itself to address this need through an expansion of its Portage la Prairie plant, scheduled to come on-line in February 2007. Can-Oat is adding 30,000 mt of primary capacity to deal with increasing demands from its customer base. In 2006, Can-Oat expanded its product offerings and market opportunities by purchasing ConAgra's milling facility in Barrhead, Alberta. In addition to its primary and finishing oat capacity, the Barrhead facility processes organics and barley, opening up new market opportunities for Can-Oat, which enjoys a solid reputation for quality and superior customer relations.

An early harvest of Saskatchewan's barley crop is very positive for malting barley selections required by the Pool and its customers. Saskatchewan Agriculture and Food estimates that 43% of the barley will grade as malt, compared to the 10-year crop report average of 30% (Source: Crop Report for September 17, 2006). Protein levels are moderate to low, disease levels are minimal and germination is very strong. Last year, germination was weak and resulted in minimal supplies and low carry-out stocks of quality barley. This year, domestic maltsters like Prairie Malt should have sufficient supplies to meet its processing demands. World barley prices are strengthening due to strong global demand and limited supply from Europe and Australia. Three factors that could limit malt price appreciation are growing concerns about high ocean freight rates, a strong Canadian dollar, and excess malting capacity in the industry. Prairie Malt enters into short and long-term sales contracts and therefore sales are expected to be at or near capacity in fiscal 2007.

7.2 Selected Three-year Annual Financial Information

Selected Annual Consolidated Financial Results			
(in millions except per share information)			
	2006	2005	2004
Sales and other operating revenues	\$ 1,580.2	\$ 1,385.7	\$ 1,407.3
EBITDA	\$ 67.5	\$ 70.5	\$ 87.3
EBIT	\$ 39.7	\$ 44.1	\$ 68.9
(Loss) earnings from continuing operations	\$ (6.8)	\$ 7.0	\$ 17.9
Net recoveries (losses) from discontinued operations	\$ 7.3	\$ 5.1	\$ (12.9)
Net earnings	\$ 0.5	\$ 12.1	\$ 5.0
Basic and diluted (loss) earnings per share from continuing Operations	\$ (0.08)	\$ (1.44) ¹	\$ (0.18) ¹
Basic and diluted earnings (loss) per share	\$ 0.01	\$ (1.26) ¹	\$ (1.43) ¹
Cash dividends declared per share	\$ -	\$ -	\$ -
Total assets	\$ 774.0	\$ 721.9	\$ 683.4
Long-term liabilities	\$ 141.6	\$ 189.9	\$ 298.9

¹ The net loss per share reflects non-cash charges to retained earnings of \$13.7 million in fiscal 2005 and \$19.8 million in fiscal 2004 for the accretion of the equity component of the Convertible Subordinated Notes and a share capital inducement premium of \$33.8 million in fiscal 2005 for Convertible Subordinated Noteholders as part of the Pool's recapitalization initiative. Noteholders received a premium on the conversion rate (3.5 million of additional shares valued at \$33.8 million) as an inducement to convert their Notes on March 31, 2005.

Adjustments to Earnings (Loss) (in millions)	2006	2005	2004
One-Time Items			
Grain Handling and Marketing ¹	\$ 7.3	\$ 4.5	\$ 10.0
Agri-products ²	0.4	-	-
Corporate ³	-	-	1.6
Provision for pension settlement ⁴	(15.0)	-	-
EBITDA	\$ (7.3)	\$ 4.5	\$ 11.6
Provision recovery ⁵	-	-	6.2
EBIT	\$ (7.3)	\$ 4.5	\$ 17.8
Expenses associated with the redemption of the Senior Subordinated Notes	(11.2)	-	-
Tax recoveries	-	1.4	2.6
Tax impact on one-time items	6.7	(0.5)	(7.0)
Total one-time items	\$ (11.8)	\$ 5.4	\$ 13.4
Effect of tax rate change on future taxes ⁶	(11.8)	-	-
Adjustments to (loss) earnings from continuing operations	\$ (23.6)	\$ 5.4	\$ 13.4
Net recoveries (losses) from discontinued operations	7.3	5.1	(12.9)
Total adjustments to net earnings	\$ (16.3)	\$ 10.5	\$ 0.5

- 1 F2006 – \$2 million gain on sale of the Pool's 50% interest in the Lloydminster joint venture and \$5.3 million actuarial adjustment to the Hourly Employees' Retirement Plan
F2005 – Ontario capital tax refund, settlement of a property tax dispute, interest income on corporate income tax refunds
F2004 – Property tax rebate and recovery from sale of interest in Mexican terminal
- 2 F2006 – \$0.4 million gain on sale of the Pool's 50% interest in the Lloydminster joint venture
- 3 F2004 – Interest income on corporate income tax refund, capital refund net of income taxes
- 4 F2006 – Provision for Saskatchewan Wheat Pool/Grain Services Union Pension Plan dispute
- 5 F2004 – Recovery from sale of interest in Mexican terminal
- 6 F2006 – Reflects the effect of lower future corporate tax rates as a result of federal and provincial tax policy changes

Adjusted Consolidated Results (in millions except per share data)	2006	2005	2004
EBITDA	\$ 74.8	\$ 66.0	\$ 75.7
EBIT	\$ 47.0	\$ 39.6	\$ 51.1
Earnings from continuing operations	\$ 16.8	\$ 1.6	\$ 4.5
Net earnings	\$ 16.8	\$ 1.6	\$ 4.5
Basic and diluted earnings per share from continuing operations	\$ 0.20	\$ 0.06 ¹	\$ 0.44 ²
Basic and diluted earnings per share	\$ 0.20	\$ 0.06 ¹	\$ 0.44 ²
Cash dividends declared per share	\$ -	\$ -	\$ -
Total assets	\$ 774.0	\$ 721.9	\$ 683.4
Long-term liabilities	\$ 141.6	\$ 189.9	\$ 298.9

1 The calculations exclude the inducement premium and accretion related to the equity component of Convertible Subordinated Notes.

2 The calculations exclude the accretion of the equity component of the Convertible Subordinated Notes

8. LIQUIDITY AND CAPITAL RESOURCES

During fiscal 2006, the Pool completed a financing program that resulted in interest rate reductions of 4% on the majority of its long-term debt and a reduction of outstanding long-term debt from \$148.9 million to \$101.9 million. Further details of the Pool's financing activities in fiscal 2006 can be found in section 8.2 and should be read in conjunction with the Notes to the Consolidated Financial Statements.

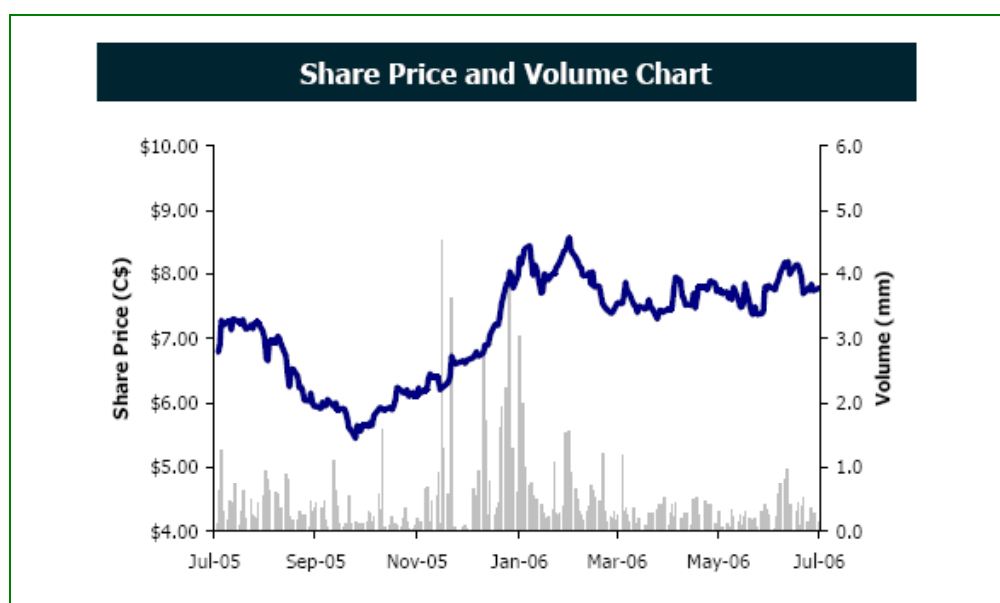
The financing activities in fiscal 2006 complemented strategies undertaken in fiscal 2005 to position the Company for future growth by improving liquidity and financial flexibility. The strategies in fiscal 2005 included:

- Securing a new three-year \$250 million revolving asset backed loan facility;
- Issuing \$100 million of Senior Secured Notes with \$78.7 million of the proceeds used to retire bank term debt;
- Re-capitalizing the Company by changing the business model from a traditional co-operative structure to a Canadian Business Corporation;
- Issuing a single class of common voting shares to Class A and Class B shareholders;
- Exchanging \$171.7 million of Convertible Subordinated Notes into new common voting shares;
- Issuing a rights offering to common shareholders that raised net proceeds of \$142.3 million; and
- Repaying \$100 million of Senior Secured Notes from the above noted proceeds.

In addition to the significant improvements made to the Pool's balance sheet, the Pool has recorded two successful years of operating results, generating \$53.7 million in cash flow from continuing operations in fiscal 2006 and \$46.7 million in fiscal 2005. Free cash flow for these years were \$23.8 million and \$33.8 million respectively. As a result, the key financial ratios set out below have improved dramatically since fiscal 2004.

Key Financial Ratios As at July 31			
	2006	2005	2004
Current ratio	2.28	2.31	1.59
Total debt-to-equity	24:76	33:67	61:39
Long-term debt-to-equity	19:81	29:71	58:42

During the year, the Pool issued 8,416,627 shares for gross proceeds of \$63.3 million. In fiscal 2005, 46,762,078 shares were issued for gross proceeds of \$150.1 million. At the end of fiscal 2006, the Pool had 90,250,764 shares outstanding. Total trading volumes in fiscal 2006 were 113,947,324 shares, representing average monthly volumes of 9,495,610 shares. The share price reached a high of \$8.87 during fiscal 2006, a low of \$5.37, and closed at \$7.78 on July 31, 2006.



Source: Bloomberg

8.1 Cash Flow from Operations

Cash flow from continuing operations rose to \$53.7 million for the year ended July 31, 2006, from \$46.7 million in fiscal 2005, reflecting stronger operating earnings year-over-year. Collections on previously recorded receivables from CAIS resulted in \$17.5 million in cash flow from discontinued operations; including \$6 million that was accrued in fiscal 2005.

Cash Flow Activities			
As at July 31			
(in millions)	2006	2005	Change
Cash and cash equivalents, beginning of year	\$ 73.3	\$ 13.4	\$ 59.9
Cash flow from (used in):			
Operating activities			
Continuing operations	53.7	46.7	7.0
Changes in non-cash working capital items – continuing operations	(20.3)	(19.7)	(0.6)
Discontinued operations	17.5	0.9	16.6
Financing activities	(0.1)	43.8	(43.9)
Investing activities	(27.4)	(11.8)	(15.6)
Increase (decrease) in cash	\$ 23.4	\$ 59.9	\$ (36.5)
Cash and cash equivalents, end of year	\$ 96.7	\$ 73.3	\$ 23.4
Cash flow from continuing operations	\$ 53.7	\$ 46.7	\$ 7.0
Capital expenditures	(29.9)	(12.9)	(17.0)
Free cash flow	\$ 23.8	\$ 33.8	\$ (10.0)

Improvements in working capital over the past three fiscal years reflect the Pool's recapitalization, refinancing initiatives and free cash flow.

Working Capital			
As at July 31			
(in millions)	2006	2005	2004
Working capital	\$ 219.4	\$ 196.7	\$ 114.1

Selected Working Capital Items			
As at July 31			
(in millions)	2006	2005	2004
Accounts receivable	\$ 123.2	\$ 127.1	\$ 164.2
Inventories	142.9	117.4	104.9
Prepaid expenses and deposits	13.1	20.7	9.8
Accounts payable and accrued liabilities	(129.9)	(115.3)	(150.7)
Total selected working capital items	\$ 149.3	\$ 149.9	\$ 128.2

Accounts receivable decreased by \$3.9 million to \$123.2 million at the end of fiscal 2006. Lower receivables for grains held on behalf of the CWB and the collection of the CAIS receivables were offset by higher trade receivables.

Inventories were \$142.9 million at the end of fiscal 2006, up from \$117.4 million at the end of fiscal 2005, reflecting higher levels of crop protection product and fertilizer inventories. The higher inventories in fiscal 2006 resulted mainly from lower than expected sales in the Agri-products segment in northeastern Saskatchewan where heavy rains caused about 1.7 million acres to remain unseeded.

Prepaid expenses and deposits declined by \$7.6 million primarily because a \$10 million security deposit was withdrawn from the CGC and replaced with a letter of credit. Partially offsetting this item, were deposits made by the Pool for agri-product supplies and prepayments by WCFL for natural gas supplies, a key component in the production of fertilizer.

Accounts payable and accrued liabilities rose \$14.6 million to \$129.9 million at the end of fiscal 2006, because of the \$15 million provision the Pool recorded for the Saskatchewan Wheat Pool/Grain Services Union Pension Plan dispute. This provision is management's best estimate of the minimum cost required by the Pool to resolve the issue.

Contractual Obligations						
	Total	Payments due by period				
		Less than 1 year	1-3 years	4-5 years	After 5 years	
Long-term debt	\$ 110.8	\$ 8.9	\$ 1.0	\$ 0.9	\$ 100.0	
Operating leases	16.6	5.3	7.4	3.9	-	
Purchase obligations*	125.5	124.9	0.6	-	-	
Other long-term obligations	35.3	7.8	13.4	4.1	10.0	
Total contractual obligations	\$ 288.2	\$ 146.9	\$ 22.4	\$ 8.9	\$ 110.0	

*The majority of purchase obligations relate to commodity purchase contracts for non-Board grains and oilseeds. The obligations under these contracts are largely offset by commodity sales contracts.

8.2 Financing Activities

During fiscal 2006, the Pool completed the following financing transactions:

- On April 5, the Pool issued 6,700,000 common shares at a price of \$7.50 per share to a syndicate of underwriters on a bought-deal basis. Net proceeds from the offering were \$47.9 million after underwriters' fees and offering expenses.
- On April 6, the Pool issued \$100 million of 8% Senior Unsecured Notes due April 8, 2013. Net proceeds to the Pool were \$97.1 million after underwriters' fees and offering expenses.
- On May 5, the Pool redeemed all outstanding 12% Senior Subordinated Notes due November 29, 2008 at the full redemption price of \$153 million, which included a \$3 million premium for early redemption. The net proceeds from the debt and equity offerings, and working capital, were used to redeem the Notes.
- On May 9, the Pool issued 670,000 common shares at \$7.50 per share pursuant to an over-allotment option granted to the underwriters for the equity offering. Net proceeds were \$4.8 million after underwriters' fees.
- On May 19, the Pool issued 1,046,627 common shares at \$7.6436 per share (five-day volume weighted average price) pursuant to a private placement agreement with Tokyo-based Mitsui & Co. Ltd. for gross proceeds of \$8 million.
- The net proceeds from the over-allotment option and private placement were added to working capital.

The reduction of the interest rate on long-term debt from 12% to 8% and the decrease in the outstanding term debt amount from \$150 million to \$100 million will result in lower future interest payments of approximately \$10 million per year.

8.2.1 Debt Rating

On March 14, 2006, Standard & Poor's raised the Pool's credit rating to B+ from B. The change reflects the Pool's refinancing initiative and substantially strengthened balance sheet.

On April 7, 2006, the Dominion Bond Rating Service (DBRS) rated the Pool's bank debt (Senior Secured Debt) as BB (low) while assigning a B (high) rating to the Senior Unsecured Notes, in recognition of the Pool's manageable financial leverage position and improved earnings potential.

Debt Ratings			
Rating Agency	Corporate Rating	Bank Debt	Senior Unsecured Notes
Standard & Poor's	B+	BB	B
DBRS	NR*	BB (low)	B (high)

*NR=Not Rated

8.2.2 Operating Line

The Pool has a \$250 million revolving asset backed loan facility that it utilizes at various times during the year to finance operating requirements, which primarily consist of grain and agri-products inventory purchases and financing of accounts receivable from the CWB and other trade accounts. There were no cash drawings on the Pool's operating loan facilities at either July 31, 2006 or July 31, 2005.

Typically, the operating lines are used to purchase inventories in the months prior to the agri-product spring selling season. In the past two years, the flow of grain purchases has become less seasonal and as a result, working capital does not fluctuate as significantly as it did in past years. The timing of grain purchases are driven more by the key drivers – quality, price, producer deliveries and exports.

The facility is also used to post letters of credit and similar instruments related to operating an agri-business. These instruments effectively reduce the amount of cash that can be drawn on the revolving asset backed loan facility. The facility is secured by assets of the Company. Interest is calculated at a floating rate of bank prime plus 0.5%. In fiscal 2005, interest was payable at prime plus 1.5%.

Certain of the Pool's subsidiaries and joint ventures have their own bank operating lines and long-term debt facilities. The Company does not guarantee and is not responsible for repayment of the subsidiaries' or joint ventures' loans.

Short-term investments are generally used to fund operating requirements before draws are made against credit facilities to purchase working capital. Short-term investments at July 31, 2006 were \$104.9 million, an increase of \$25.6 million from fiscal 2005. Excluding its proportionate share of joint ventures, the Pool held short-term investments of \$78 million at July 31, 2006 compared to \$29 million at the end of fiscal 2005.

8.3 Investing Activities

8.3.1 Capital Expenditure

The Pool's capital expenditures in fiscal 2006 were \$29.9 million, including expenditures at Can-Oat Milling. The majority was spent on capital upgrades to the Pool's grain handling network with \$7.7 million related to upgrades to the dust control, ventilation and cleaning systems at the Vancouver port terminal. These improvements were part of a multi-year project to improve operations at the port. Can-Oat's expenditures mainly related to capital projects supporting expansion of its annual milling capacity.

In fiscal 2006, Can-Oat Milling began construction on a \$12 million expansion plan, to increase overall primary processing capacity at its Portage la Prairie plant. Approximately 30% of the costs were incurred during the year. Can-Oat also acquired an oat milling facility in Barrhead, Alberta, in June 2006, which increased its annual capacity to 375,000 mt.

On February 22, 2006, the Pool divested of its 50% interest in a grain and agri-product facility at Lloydminster, Saskatchewan. The Company recorded a pre-tax gain on the sale of \$2.4 million, with \$2 million attributed to the Grain Handling and Marketing segment and the balance to the Agri-products segment.

In fiscal 2007, consolidated capital expenditures are expected to increase approximately 33% to \$40 million. About 50% of the expected funding will be targeted to capital upgrades and improvements to the Pool's grain handling and agri-products retail network system and 30% to Can-Oat expansion and its \$1.7 million biomass fuel project, which began in fiscal 2006.

8.3.2 Dividends

The Pool receives regular dividends from certain of its subsidiaries and joint ventures. The dividend level depends on a number of factors, including profitability, cash flow and capital spending programs of the entities as well as covenants in their financing agreements. Dividends from joint ventures depend on the agreements with joint venture partners. The Pool does not rely on these dividends to fund its capital spending programs or to meet its financial obligations.

9. COLLECTIVE BARGAINING

During fiscal 2006, the following collective agreements were renegotiated with an average annual wage and benefit increase of approximately 3% per year:

- The Grain Workers Union collective agreement, representing 107 employees at the Pool's Vancouver grain terminal, was ratified in May 2006. The agreement expires in 2010.
- The United Steel Workers of America, Union Lodge 650 collective agreement, representing 47 employees at the Pool's Thunder Bay grain terminal, was ratified in May 2006 and will expire in 2009.
- The Grain Services Union collective agreements, representing 57 employees at the Pool's AgPro facilities in Moose Jaw and Saskatoon, were ratified in June and July 2006, respectively. The agreements will expire in 2009.

The Pool is currently bargaining with the Grain Services Union on two separate collective agreements that represent 529 employees in Country Services facilities across Saskatchewan and 149 employees at the Pool's head office in Regina. Both collective agreements expired in January 2006.

The United Food & Commercial Workers Union agreement that covers employees at the AgPro facility in Coulter expires in 2007. The Grain Services Union agreement, covering employees at the Pool's AgPro facilities in Alberta and Manitoba also expires in 2007. The Pool operates its grain handling and agri-products locations as AgPro in Manitoba and Alberta.

Recently, the United Food & Commercial Workers Union (“UFCW”) filed Certification Applications with the Saskatchewan Labour Relations Board and the Canadian Industrial Relations Board to represent the workers in the Can-Oat plant in Martensville, Saskatchewan. If the Canadian Industrial Relations Board is satisfied that the application represents a majority of the employees, and the bargaining unit is determined to be the appropriate unit for collective bargaining, it is believed they will certify the Union. If this is the case, Can-Oat Martensville will be represented by the UFCW and negotiations for an initial agreement will commence.

10. OFF BALANCE SHEET ARRANGEMENTS

Under the terms of an agreement, Farm Credit Canada provides credit to the Pool's farming customers for the purchase of crop inputs. Please refer to the discussion under Credit Risk, Critical Accounting Estimates – Agri-products segment and Note 15b in the Notes to the Consolidated Financial Statements.

11. RELATED PARTY TRANSACTIONS

Transactions with joint ventures and subsidiaries are eliminated in accordance with consolidation accounting principles. There are no significant related party transactions with equity accounted investees.

12. CRITICAL ACCOUNTING ESTIMATES

In preparing the Company's Consolidated Financial Statements, management is required to make assessments and estimates as to the outcome of future events. Such assessments are made using the best information available to management at the time. The following is an analysis of the critical accounting estimates.

12.1 Grain Handling and Marketing Segment

The Grain Handling and Marketing segment contains a \$4 million allowance related to a receivable for product delivered to a customer in Mexico. Due to steps taken by the Company to mitigate this potential loss as at July 31, 2006, the allowance of \$4 million completely covers the exposure. Recovery by the Pool on any portion of this receivable would increase earnings in future years.

12.2 Agri-products Segment

Under the terms of an agreement, Farm Credit Canada provides credit to farm customers of the Pool for the purchase of crop inputs. Loans are stratified based on program years and are generally due to the financial institution on January 31, of the following year. Loans under the program are secured by a general security agreement granted by the customer, covering the crop and farm assets. Under the agreement, the Pool has agreed to reimburse this financial institution in December for loan losses in excess of a reserve.

At July 31, 2006, \$188.4 million of producer loans were outstanding, including \$182.3 million related to the 2006 loan program and \$6.1 million related to the 2005 loan program. The loan loss provision is \$3.3 million, with the net portion due within one year estimated at \$1 million. This provision has been established based on historical results from fiscal 2003 to fiscal 2005 and the Pool's assessment of outstanding loans. The Pool expects that loan losses will not differ significantly from the amount provided for previously. Any differences will be reflected in future years.

In 1987, WCFL closed two facilities that manufactured phosphate and nitrate fertilizers. The joint venture has provided for site restoration and reclamation costs related to former production facilities

in Calgary and Medicine Hat, Alberta and associated phosphogypsum stacks and certain closed landfills. The Pool's share of the estimated costs included in long-term liabilities is \$10 million. WCFL reviews the provision on a regular basis to ensure that the costs to complete the work are appropriately reflected in its financial statements. If the estimate for reclamation changes in the future, the earnings of the joint venture will be affected.

12.3 Agri-food Processing Segment

There are no critical accounting estimates in this segment.

12.4 Corporate and Other

The Pool follows the liability method of tax allocation in accounting for income taxes. Essentially, future income tax assets and liabilities are recorded based on the temporary differences between the tax and accounting balances for these assets and liabilities, multiplied by the tax rate projected to be in effect when the differences are expected to reverse. For the Pool, the primary temporary differences involve the book value of property, plant and equipment compared to the tax cost of these assets as well as non-capital tax losses available for carry-forward over a finite period.

The Pool records future tax assets, net of a valuation allowance that reflects an amount the Company considers is more likely than not to be realized. At July 31, 2006, the Pool has future tax assets of \$103.3 million, which is net of a \$39.8 million valuation allowance. The amount recorded may change based on future events and circumstances.

12.5 Saskatchewan Wheat Pool/Grain Services Union Pension Plan

As described in Note 19b of the Annual Consolidated Financial Statements for the year ended July 31, 2006, 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 employees. 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.

A formal actuarial valuation on the Plan as at December 31, 2005, was filed with the Office of the Superintendent of Financial Institutions (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.

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 a 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 the financial statements.

Readers should refer to Note 19b in the Notes to the Consolidated Financial Statements for additional information.

13. CHANGES IN ACCOUNTING POLICIES

During the year, the Pool 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 and are described in Note 18 in the Notes to the Consolidated Financial Statements. The Pool uses the fair value method to account for these new plans, which is the same method used on stock option plans already in existence and in accordance with the Canadian Institute of Chartered Accountants (CICA) 3870.

The only accounting policy change from fiscal 2005 relates to the CICA standard regarding Asset Retirement Obligations (ARO) (CICA 3110). The accounting for the environmental obligations of one of the Company's affiliates was amended to reflect CICA 3110 effective August 1, 2004. 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.

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 fiscal 2005.

14. FINANCIAL AND OTHER INSTRUMENTS

The Pool 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, exchange-traded futures and options contracts, and forward purchase and sales contracts, with the objective of managing exposure to adverse price movements in agricultural commodities. The daily net commodity position consists of inventory, related forward purchase and sales contracts, and exchange-traded futures and options contracts.

The Pool uses these derivative contracts to minimize the effects of changes in the prices of hedgable agricultural commodities. Exchange-traded futures and options contracts and forward purchase and sales contracts are marked-to-market at values based on quoted market prices adjusted for freight

and handling costs. The unrealized gains and losses for hedgable commodity positions are recognized as cost of sales in the Consolidated Statements of Earnings and Retained Earnings (Deficit).

The Company has practices and policies in place to limit the amount of unhedged fixed-price commodity positions that it is allowed to maintain. On a daily basis, the Company measures the combination of quantity and value at risk.

The Pool is exposed to fluctuations in foreign currency exchange rates on transactions denominated in foreign currencies.

The Company 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 and forecast transactions. Certain areas of the Company not related to the handling and marketing of grain, follow the Hedging Relationships guidance of CICA Accounting Guideline 13. Under hedge accounting, the gains and losses, revenues and expenses associated with a hedged item and the hedging instrument are recognized in income in the same period. In the remaining areas of the Company, unrealized gains and losses on forward foreign exchange and futures contracts are marked-to-market and recognized as sales and other operating revenues in the Consolidated Statements of Earnings and Retained Earnings (Deficit).

The Pool has established policies that measure and review its exposure to foreign currency risk on a daily basis. Further information is provided in the July 31, 2006, Notes to the Consolidated Financial Statements – Note 24.

15. FUTURE ACCOUNTING STANDARDS

All of the future CICA accounting standards below need to be adopted at the same time. All standards are required to be adopted for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The impact of the adoption of these standards on the presentation of the Company's consolidated financial statements has not yet been determined.

15.1 Comprehensive Income and Equity

Comprehensive Income (CICA 1530) introduces a new location, outside the income statement, for recognizing certain unrealized gains and losses – other comprehensive income. Equity (CICA 3251) establishes standards for presentation of equity and changes in equity during the reporting period.

15.2 Financial Instruments and Hedge Accounting

Financial Instruments – Recognition and Measurement (CICA 3855) establishes the basis for initial measurement (fair value) and subsequent measurement (fair value or cost) of financial instruments. Financial Instruments – Disclosure and Presentation (CICA 3861) is amended to address the presentation of financial instruments and non-financial derivatives, and identify the information that should be disclosed about them, including accounting policy and fair value disclosures. Hedges (CICA 3865) extend existing requirements for hedge accounting.

16. RISK MANAGEMENT

The Pool faces certain risks, including weather, strategic, market, financial restriction, credit and foreign exchange risk, which can impact its financial performance. For additional information on other general business and environmental risks, readers should review the 2006 Annual Information Form.

16.1 Governance and Oversight

The Pool's Risk Management Committee (the "Committee") is a senior management committee responsible for assessing enterprise risks and implementing strategies to reduce the Company's exposure. The Committee meets regularly to assess risks and direct risk mitigation activities. Regular reports are provided to the Audit Committee of the Board of Directors.

16.2 Weather Risk

As an agri-business Company, the Pool's most significant risk is the weather. The effects of weather conditions on crop quality and production volumes present significant operating and financial risk to the Pool's Grain Handling and Marketing segment. Volumes are a key driver of earnings for the Pool's grain operations. Fixed costs in the Pool's primary elevator system represent approximately 75% to 80% of total costs and, as a result, reduced volume and inventory turns negatively impact the margin/earnings per tonne achievable.

Crop quality is also an important factor because the majority of the higher quality grains and oilseeds move into export position; accordingly, the Pool generates margins at each stage of its pipeline through to its port terminals.

Grains destined for domestic markets on average generate lower margins, particularly feed grains, which require little processing and handling. Therefore, the mix of grains and oilseeds that the Pool manages in any given year is an important factor in its ability to generate strong margins and earnings. The Pool offers a number of programs to its primary customers, including drying and blending opportunities in an attempt to mitigate some of the quality risk.

The level and mix of agri-products sales are also dependent on weather. Weather is a determining factor in crop selection by producers at seeding time, the variety of seeds sown, and the amount of proprietary seed sold. Crop selection decisions also impact the amount of fertilizer and crop protection products sold since certain crops require significantly more inputs than others. During the growing season, weather determines how much product is applied to the land. The Pool's Agri-products group works closely with its Grain group to anticipate producers' intentions for seeding, in order to manage agri-products inventories appropriately.

The Pool has attempted over the years to mitigate exposure to weather by expanding its grain handling and agri-products facilities into Alberta and Manitoba thereby reducing the impact of localized growing conditions. The Pool secured grain volume insurance for the 2007 fiscal year. The coverage provides a maximum payment of \$30 million with partial payments available should prairie production decline by approximately 20%. The program is weighted regionally to reflect the Pool's market share in each province. The package also includes a small three-year component.

16.3 Market Risk

A significant portion of the Pool's sales are derived from our Grain Handling and Marketing segment. Earnings for this segment fluctuate based on the volume of grain handled and the margins earned on the purchase and sale of non-Board grains. In the case of Board grains, the Pool earns CWB storage and handling tariffs; these are established independently of the market price for grain.

Approximately 60% of the grain shipped by the Pool is Board grain – wheat and barley sold by or on behalf of the CWB – into the export and domestic markets. For these grains, our risks are reduced in part through the terms of formal legal arrangements between the Pool and the CWB. The arrangements provide for full reimbursement of the price paid to producers for grain as well as certain costs incurred by the Pool. Adverse impacts can be experienced by the Pool whereby handling of Board grain results in a loss of grade or, in the case of the CWB's tendering program, the Pool fails to meet the requirements under the tendering contract. The Pool employs grain grading, handling procedures and quality testing across our pipeline to help mitigate these risks.

For non-Board grains and oilseeds purchased by the Pool, we face the risk of movement in price between the time the grain is purchased and when it is sold. Financial risk management activities commonly referred to as 'hedging', where such opportunities exist, can reduce this risk. Hedging is the placing in the futures market of a position opposite to one held in the cash market, in order to reduce the risk of financial loss from an adverse price change. The Pool manages non-Board grain market risk primarily through hedging and maintaining positions on all commodity purchases and sales within approved position limits.

The Pool employs a comprehensive Commodity Risk Management Policy, in which position limits are used to restrict our exposure to changes in commodity prices. Position limits set out the amount of market exposure the Company is willing to tolerate by commodity. The Policy defines these tolerance levels based on the size of the original position, liquidity in the futures market and a number of other factors. The Board's Audit Committee sets various authorization limits.

16.4 Credit Risk

The Pool is exposed to credit risk in connection with credit provided to its customers, including credit provided on agri-products purchases through a third party. Credit defaults by the Pool's customers could have a material adverse effect on the Pool's financial results and financial condition. The Pool shares responsibility for defaulted accounts and loan losses with Farm Credit Canada, its partner in the FarmSmart agri-products credit program. The allowance for doubtful accounts under this program averaged less than 2% of sales per program year in its first three years of operation.

The Pool manages credit risk through adherence to its established Credit and Collection Policies. The Credit Policy outlines the terms and conditions for granting credit to customers and continuing credit sales. The Collection Policy provides the framework for collections of past due accounts. Any exceptions to the Credit and Collection Policies require the written approval of the Pool's executive management. These policies cover the Pool's agri-products and commercial grain credit facilities, as well as the credit facilities for Can-Oat Milling.

The Pool pursues a payment and country risk reduction strategy for offshore customers by using export financing arrangements, strategic business alliances and country risk reporting. Export financing payment arrangements include cash prior to unloading, cash against documents and obtaining confirmed letters of credit. Activity is continually monitored to ensure the Pool's exposure is within acceptable limits.

16.5 Foreign Exchange Risk

Significant portions of Can-Oat's oat products and the Pool's non-Board grains are sold into the export market and are priced in American dollars. Can-Oat and the Pool hedge substantially all foreign currency transactions using options, futures currency contracts or forward exchange contracts, and through the use of natural hedges created by offsetting transactions. To the extent that we have not fully hedged this foreign exchange risk, an appreciation of the Canadian dollar against the American dollar or other relevant currencies could have a material adverse effect on the Pool's financial results.

17. NON – GAAP MEASURES

17.1 EBIT and EBITDA Data

The EBIT and EBITDA data included in this Management's Discussion and Analysis is intended to give further insight regarding the Company's financial results, including its results on a segment-by-segment basis, and to supplement information on its earnings (loss) as determined in accordance with generally accepted accounting principles (GAAP). The Pool's method of calculating EBIT and EBITDA may not be comparable to other companies in the industry. Therefore, EBIT should not be used as an alternative to net earnings (loss) as determined in accordance with GAAP. Similarly, EBITDA should not be used as an alternative to cash provided by operating activities as determined in accordance with GAAP. Also note that the Pool has provided EBITDA and EBIT information before one-time items to assist readers in properly assessing the financial performance of its operations.

17.2 One-time Items

One-time items are considered by their nature to be unusual or non-recurring to normal operations of the Company. These items should be considered when assessing the operational performance of the Company on a segment-by-segment basis.

17.3 Adjusted Earnings or Results

Adjusted earnings or results are GAAP earnings before One-time Items defined above.

18. EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Management, including the President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Pool's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators) as of July 31, 2006. Management has concluded that, as of July 31, 2006, the Pool's disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Pool and its consolidated subsidiaries and joint ventures would be made known to them by others within those entities, particularly during the period in which this report was being prepared.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

There have been no changes in the Company's internal control over financial reporting that occurred during the year that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

19. FORWARD-LOOKING INFORMATION

Certain statements in this Annual Report are forward-looking and reflect the Pool's expectations regarding future results of operations, financial condition and achievements. All statements included herein that address activities, events or developments that the Company or its management expects or anticipates will or may occur in the future, including such things as growth of its business and operations, competitive strengths, strategic initiatives, planned capital expenditures, plans and references to future operations and results of the Company and such matters, are forward-looking statements. In addition, when used in this Annual Report and in the documents incorporated herein by reference, the words "believes", "intends", "anticipates", "expects", "estimates" and words of

similar import may indicate forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance and achievements of the Pool to be materially different from any future results, performance and achievements expressed or implied by those forward-looking statements. A number of factors could cause actual results to differ materially from expectations including, but not limited to, those factors discussed under the heading "Risk Factors" in the Pool's current Annual Information Form and under the heading "Risk Management" in the Pool's current Management's Discussion and Analysis; weather conditions; crop production and crop quality in Western Canada; world agricultural commodity prices and markets; producers' decisions regarding total seeded acreage, crop selection, and utilization levels of farm inputs such as fertilizers and pesticides; the Pool's dependence on key personnel; any labour disruptions; the Company's financial leverage and funding requirements; credit risk in respect of customers of the Pool; foreign exchange risk; counterparty risks in connection with foreign exchange and commodity hedging programs; changes in the grain handling and agri-products competitive environments, including pricing pressures; Canadian grain export levels; changes in government policy and transportation deregulation; international trade matters, and global political and economic conditions, including grain subsidy actions and tariffs of the United States and the European Union; competitive developments in connection with the Pool's grain handling, agri-products, agri-food processing businesses and other operations; and environmental risks and unanticipated expenditures relating to environmental or other matters. All of the forward-looking statements made in this Annual Report are qualified by these cautionary statements and the other cautionary statements and factors contained herein or in other documents referenced, and there can be no assurance that the developments or results anticipated by the Company and its management will be realized or, even if substantially realized, that they will have the expected consequences for, or effects on, the Company.

Although the Pool believes the assumptions inherent in forward-looking statements are reasonable, undue reliance should not be placed on these statements, which only apply as of the date of this Annual Report. The Pool disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise, except as otherwise required by applicable law.