



**Saskatchewan Wheat Pool Inc.**

**For Immediate Release**

February 27, 2007

Regina, Saskatchewan

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**Pool Builds Momentum with Strong Second Quarter Results**

Saskatchewan Wheat Pool Inc. (“Pool”) today announced net earnings of \$7.9 million for the quarter ended January 31, 2007, which compares to net earnings of \$2.9 million for the same quarter a year earlier. Excluding one-time items, the Pool generated quarterly net earnings from continuing operations of \$8.7 million, up from a loss of \$2.0 million in the previous year’s second quarter.

On a twelve-month trailing basis, the Pool’s net earnings from continuing operations excluding one-time items soared to \$30.0 million at the end of January 2007, up \$18.7 million from \$11.3 million for the same period a year earlier.

President and Chief Executive Officer Mayo Schmidt commented on the Pool’s performance, “These are the type of industry leading results that the market has come to expect from the Pool. Our momentum continues. We are illustrating to our stakeholders the efficiency of our superior asset base, the value of proven management expertise and the integrity of our operating model. It is this kind of performance that we bring to the table to drive long-term value for shareholders as we execute strategies to grow the business and further strengthen our position in the global marketplace.”

All three of the Pool’s core operations, including its Grain Handling and Marketing segment, its Agri-products segment and Can-Oat Milling reported higher contributions for the quarter relative to the same period a year ago. Highlights include:

- The Pool posted solid operating segment earnings from continuing operations, before interest, taxes and amortization (EBITDA) of \$33.6 million for the quarter, nearly double the \$17.3 million achieved in the second quarter of 2006.
- Its Grain Handling and Marketing segment drove the earnings growth with quarterly EBITDA of \$27.6 million compared to \$12.1 million a year earlier.
- The Pool shipped 2.2 million tonnes for the quarter, up from 2.1 million tonnes last year and achieved gross margins per tonne of \$24.25 (\$22.41 excluding one-time items) compared to \$17.68 last year.

- The Pool's agri-products retail operations achieved sales of \$33.8 million for the quarter, up from \$32.2 million last year.
- The Agri-products segment generated EBITDA of \$1.3 million compared to nil in the same period the previous year.
- Can-Oat Milling sales grew 24.1% for the quarter and its EBITDA contribution grew 8.2%.
- Cash flow from continuing operations, prior to working capital changes was \$24.5 million for the quarter, nearly four times the level of last year's second quarter when the Pool generated \$6.4 million of cash flow.
- The Pool's net earnings for the second quarter rose to \$7.9 million, up from \$2.9 million last year. Included in last year's second quarter net earnings was \$4.9 million in recoveries from discontinued operations.

This is the second year that the Pool has achieved stronger comparative financial results on a six-month basis. Building on a successful first quarter, the Pool generated:

- Operating segment EBITDA for the six months of \$42.0 million compared to \$22.9 million last year in the same period.
- Cash flow from continuing operations, prior to working capital changes, in the first six months of \$25.3 million compared to \$1.9 million for the same period a year ago.
- Net earnings on a year-to-date basis rose \$7.5 million to \$2.8 million, compared to a loss of \$4.7 million (and a loss of \$9.6 million prior to the recovery from discontinued operations) for the same period last year.

The Pool's balance sheet is strong and provides the financial flexibility and stability to support long-term growth. Its debt to equity ratio was 28:72 at January 31, 2007 compared to 34:66 at January 31, 2006.

On a twelve-month trailing basis, the Pool generated the following results (all amounts exclude one-time items):

- EBITDA of \$89.1 million for the period ending January 31, 2007, compared to \$66.8 million for the same period one year earlier.
- Cash flow from continuing operations, prior to working capital changes of \$76.3 million compared to \$44.9 million.

The Pool signed a two-year supply agreement with Terra Grain Fuels Inc., North America's largest wheat-based ethanol facility currently under construction at Belle Plaine, Saskatchewan. The Regina-based ethanol company will require approximately 400,000 tonnes of feed quality wheat per year and will produce 150 million litres of ethanol annually and approximately 164,000 tonnes of dried distillers' grains each year. The Pool will be a key supplier.

On February 26, 2007, the Pool announced its purchase of the key assets of Gates Fertilizer Ltd., including leases on two retail outlets located in Nipawin and Carrot River, Saskatchewan. This acquisition will further complement the Pool's existing retail network and enhance its ability to serve area customers. Both locations will be fully operational, effective immediately, and will offer a wide range of fertilizer, seed, and crop protection products. Local customers will also enjoy the added benefit of increased access to anhydrous ammonia.

The Pool renewed its grain volume insurance coverage for fiscal 2008. Coverage under the program was reduced from \$30 million to \$26 million in response to the Pool's continued strengthening financial position. Partial insurance payments will occur if grain production declines by approximately 20%. The program is weighted regionally to reflect the Pool's market share in each province. The package also includes a small multi-year component, which solidifies the Pool's ongoing commitment to this important risk management strategy.

“The Pool continues to focus on what we do best and operationally we are maximizing our opportunities. Our farm customers are eager to take advantage of industry fundamentals and we have been working very closely with them to help position them for success during the next growing season,” said Schmidt. “At the same time, we remain focused on our bid for Agricore United. The Pool's commitment to this industry and its future as a sustainable and profitable contributor to the Canadian economy is paramount. Our governance model ensures we are representing the interests of all stakeholders in this effort, including western Canadian farmers who are an integral part of our business. A Pool-Agricore combination delivers the best value for all shareholders and we look forward to the opportunity to entertain discussions with Agricore to fully explore the value of our proposal for the benefit of the Canadian agricultural industry.”

***The Pool will be hosting a conference call for interested parties today at 2:00 p.m. Toronto time, 1:00 p.m. Regina time to discuss its Second Quarter Financial Report. Details are available on the Pool's website, under Newsroom at [www.swp.com](http://www.swp.com).***

Saskatchewan Wheat Pool Inc. is a publicly traded agribusiness headquartered in Regina, Saskatchewan. Anchored by a Prairie-wide grain handling and agri-products marketing network, the Pool channels Prairie production to end-use markets in North America and around the world. These operations are complemented by value-added businesses and strategic alliances, which allow the Pool to leverage its pivotal position between Prairie farmers and destination customers. The Pool's common

shares are listed on the Toronto Stock Exchange under the symbol SWP and its subscription receipts are listed under the symbol SWP.R.

### Forward Looking Information

This release contains forward looking statements that involve certain risks and uncertainties which could cause actual results to differ materially from future results expressed or implied by such statements. Important factors that could affect these statements include, without limitation, weather conditions; producer's decisions regarding total planted acreage, crop selection, and utilization levels of farm inputs such as fertilizers and pesticides; Canadian grain export levels; changes in government policy and transportation deregulation; world agricultural commodity prices and markets; changes in competitive forces including pricing pressures; and global political and economic conditions, including grain subsidy actions of the United States and European Union.

### For U.S. Shareholders

It may be difficult to compel a foreign company and its affiliates to subject themselves to an U.S. court's judgment. U.S. shareholders should be aware that, to the extent permissible, the Pool may purchase Agricore United shares otherwise than under the exchange offer, such as in open market or privately negotiated purchases.

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[www.swp.com/investor.html](http://www.swp.com/investor.html)

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**Saskatchewan Wheat Pool Inc.**

**SECOND QUARTER REPORT – JANUARY 31, 2007  
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 February 27, 2007. Management prepared this report to help readers interpret the Pool's financial results for the three-month and six-month periods ended January 31, 2007, compared to the same periods in the previous fiscal year. To support this discussion, we have included information with respect to the agri-business industry, the markets in which we operate and any trends that may impact operating and financial performance into the future. This report should be read in conjunction with the Pool's 2006 Annual Report and Annual Information Form, which are available on the Pool's website at [www.swp.com](http://www.swp.com) and under the Company's name on SEDAR's website at [www.sedar.com](http://www.sedar.com).

Management's Discussion and Analysis, unaudited Consolidated Financial Statements and Notes to the Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) 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 their 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 participates in fertilizer manufacturing and malt processing through ownership interests in Western Co-operative Fertilizers Limited (WCFL) and Prairie Malt Limited respectively. 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 Company also markets commodities directly to global customers around the world.

The Pool's fiscal year runs from August 1 to July 31 and follows the traditional crop year. 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 is fairly consistent through each quarter, but can be influenced by destination customer demand, the Canadian Wheat Board's (CWB's) export program, and producers' marketing decisions. The bulk of the Pool's agri-products sales occur in the spring and summer months, which is the Company's fourth quarter, when the crop is planted and maturing. In the agri-food business, earnings are more fluid with continuous demand for products throughout each quarter.

### 3. SUMMARY AND ANALYSIS OF CONSOLIDATED RESULTS

Sales and other operating revenues for the second quarter of fiscal 2007 rose 21.9% or \$80.5 million to \$448.2 million, up from the \$367.7 million generated in the second quarter last year. Strong commodity prices and quarterly grain and oilseed shipments, together with higher sales from the Pool's Agri-food Processing segment, more than offset the impact of lower selling prices on the Agri-products segment sales.

On a year-to-date basis, sales and other operating revenues were \$789.5 million, a 23.0% improvement over \$641.7 million in the first six months of fiscal 2006. A 9.4% increase in grain shipments for the period, coupled with higher sales from Agri-food Processing offset lower sales from the Agri-products segment, which primarily reflected lower fertilizer prices relative to the previous year.

Earnings from continuing operations before interest, taxes and amortization (EBITDA) for the quarter rose 93.7% relative to last year's second quarter. The Pool generated EBITDA prior to corporate expenses and a provision for a pension settlement of \$33.6 million, a \$16.3 million improvement over last year's second quarter. Included in this quarter's results is a net settlement of \$3.8 million in the Pool's favour relating to an outstanding legal matter. Stronger volumes and higher gross margins in the Grain Handling and Marketing segment were the primary drivers of the performance improvement. The Pool's Agri-products segment also generated an additional \$1.3 million in EBITDA for the quarter reflecting stronger sales and margins in its crop protection, equipment and seed product categories. In the Agri-food Processing segment, an 8.2% improvement in EBITDA contribution from Can-Oat Milling partially offset lower results from Prairie Malt Limited.

For the six-month period, operating segment EBITDA was \$42.0 million, nearly double the \$22.9 million generated in the first six months of fiscal 2006. The grain segment led the performance improvement on margin and volume growth. The Pool's retail agri-products results were on par with the previous year's period, while contributions from WCFL were up 18.4%. These improvements more than offset lower results from the Agri-food Processing segment. Additional information is provided in the individual segment discussions.

Corporate expenses for the second quarter were \$7.2 million compared to \$6.2 million in the second quarter last year and \$12.8 million for the six months ended January 31, 2007, versus \$11.8 million in the same period last year, up primarily due to costs associated with the Pool's proposed acquisition of Agricore United.

The Pool recorded an additional \$5.0 million provision with respect to the Company's best estimate of the minimum cost required to resolve the dispute regarding the Saskatchewan Wheat Pool/Grain Services Union Pension Plan (SWP/GSU) solvency deficiency. There is a risk that the Company may ultimately be held responsible for

an increase in contributions beyond the aggregate \$20 million provision. Additional information is available in Note 10 b) to the Consolidated Financial Statements.

Consolidated EBITDA was \$21.4 million for the second quarter of fiscal 2007, almost twice the \$11.0 million generated in last year's second quarter. For the six-month period, consolidated EBITDA rose to \$24.2 million from the \$11.1 million recorded for the same period last year.

Amortization for the three months ended January 31, 2007, was \$7.7 million up from \$7.0 million in last year's second quarter. In the six-month period, amortization was \$15.2 million compared to \$13.7 million last year. The increases are associated with recent capital investment.

EBIT (earnings from continuing operations before interest and taxes) improved to \$13.7 million for the quarter, up from \$4.1 million in the same period last year. Year-to-date EBIT for fiscal 2007 was \$9.0 million up from a loss of \$2.7 million last year.

Quarterly interest expense was down to \$3.1 million nearly half the \$6.0 million expensed in last year's second quarter. Interest expense for the six-month period was \$5.8 million, compared to \$11.9 million expensed last year. The decline primarily reflects lower debt levels and lower interest rates on the Pool's long-term debt.

The Pool recorded corporate tax provisions of \$2.7 million in the second quarter of fiscal 2007 and \$0.1 million in last year's second quarter. Corporate tax provisions for the first six months of fiscal 2007 were \$0.4 million compared to a \$4.9 million tax recovery in the same period last year. Increases in the provision for corporate taxes reflect improvements in pre-tax earnings.

The Pool's net earnings for the second quarter increased to \$7.9 million, up from \$2.9 million last year. Net earnings from continuing operations rose by \$9.9 million from a \$2.0 million loss last year. In the second quarter last year, the Pool recorded \$4.9 million in recoveries from discontinued operations. Net earnings on a year-to-date basis climbed \$7.5 million to \$2.8 million, compared to a loss of \$4.7 million (and a loss of \$9.6 million prior to the recovery from discontinued operations) for the same period last year.

Earnings per share for the second quarter were \$0.09 on a weighted average number of shares of 90.3 million, compared to the \$0.04 per share earned last year, based on a weighted average number of shares of 81.8 million. Earnings per share for the six-month period were \$0.03 per share based on a weighted average number of shares of 90.3 million, up significantly from a loss of \$0.06 per share based on a weighted average number of shares of 81.8 million in the prior year's six-month period.

<b>Reconciliation of Net Earnings (Loss) to EBITDA and Impact of One-time Items For the Periods Ended January 31</b>						
(in thousands)	Three Months			Six Months		
	2007	2006	%	2007	2006	%
<b>Net earnings (loss)</b>	\$ 7,935	\$ 2,945	169.4%	\$ 2,801	\$ (4,709)	159.5%
Net recovery from discontinued Operations	-	(4,921)		-	(4,921)	
<b>Net earnings (loss) from continuing operations</b>	7,935	(1,976)	501.6%	2,801	(9,630)	129.1%
<b>One-time items</b>						
Grain	(3,833)	-		(3,833)	-	
Provision for pension settlement	5,000	-		5,000	-	
Tax impact	(376)	-		(376)	-	
<b>Net earnings (loss) from continuing operations before one-time items</b>	8,726	(1,976)	541.6%	3,592	(9,630)	137.3%
Interest expenses	3,056	5,970		5,807	11,921	
Provision for (recovery of) corporate taxes	2,678	85		406	(4,946)	
Tax impact of one-time item	376	-		376	-	
<b>EBIT before one-time items</b>	14,836	4,079	263.7%	10,181	(2,655)	483.5%
Amortization	7,713	6,960		15,164	13,728	
<b>EBITDA before one-time items</b>	22,549	11,039	104.3%	25,345	11,073	128.9%
<b>One-time items</b>						
Grain	3,833	-		3,833	-	
Provision for pension settlement	(5,000)	-		(5,000)	-	
<b>EBITDA</b>	\$ 21,382	\$ 11,039	93.7%	\$ 24,178	\$ 11,073	118.4%

#### **4. SEGMENT RESULTS**

##### **4.1 Grain Handling and Marketing**

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 quality tested, cleaned, dried and blended in preparation for shipping and the Pool extracts a margin for these services. Volumes, quality and export demand are key drivers in this business. The Pool markets non-Board grains and oilseeds directly to customers and buys and sells CWB grains as an Agent and Accredited Exporter of the CWB. The level of shipments each quarter 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.

During the second quarter of fiscal 2007, producers delivered 2.1 million metric tonnes (mmt) of grains and oilseeds into the Pool's primary elevator network compared to 2.0 mmt in last year's second quarter. For the six-month period, deliveries were up 6.4% to 4.2 mmt from 4.0 mmt last year. Farmers increased their deliveries in an effort to capture better returns resulting from strengthening commodity prices industry-wide.

The Pool's market share for the first six months was up in all three provinces. Industry deliveries into Manitoba facilities were significantly higher than the previous year due to a return to average production levels in that region. The Pool's consolidated market share across the Prairies was 23.4% compared to 24.0% for the first six months due to the higher proportion of deliveries in Manitoba.

Primary elevator shipments for the quarter were 2.2 mmt compared to 2.1 mmt in last year's second quarter. For the six months ending January 31, 2007, the Pool's shipments climbed 9.4% compared to the same period a year ago, and well ahead of the 7.7% achieved by the industry. The Pool's shipments were 4.3 mmt, versus 3.9 mmt for the same period last year. Both CWB and non-Board exports were strong for the Pool with increases relative to last year's period of 11.4% and 6.8% respectively. CWB grain shipments represented 57.5% of the Pool's year-to-date total, compared to 56.4% at this time last year. Excellent crop quality, strong demand and a successful marketing and logistics program contributed to the growth in Pool shipments.

Volumes for the quarter, through the Pool's wholly owned port terminals at Thunder Bay and Vancouver, were 1.1 mmt versus 1.3 mmt last year. Poor weather at the Port of Vancouver during the quarter created a backlog of rail cars and hindered vessel loading for the entire industry. Six-month terminal volumes at the Pool's port facilities were 2.2 mmt compared to 2.5 mmt last year. During the first quarter of 2007, the Pool's Vancouver facility, which is part of the joint venture Pacific Gateway Terminals Ltd., was shut down for five weeks to allow for scheduled maintenance. This resulted in lower volumes through that port, which were somewhat offset by higher shipments through Thunder Bay. The Pool's share of volumes through Prince Rupert Grain Ltd. were 0.2 mmt for the quarter and 0.5 mmt for the six-month period which is up 13.1% on a year-to-date basis.

<b>Grain Handling and Marketing Segment Volumes For the Periods Ended January 31</b>						
	<b>Three Months</b>			<b>Six Months</b>		
	<b>2007</b>	<b>2006</b>	<b>% Change</b>	<b>2007</b>	<b>2006</b>	<b>% Change</b>
('000s metric tonnes)						
Primary elevator receipts	2,074	2,031	2.1%	4,205	3,953	6.4%
Primary elevator shipments						
CWB grains	1,216	1,197	1.6%	2,447	2,196	11.4%
Non-Board grains and oilseeds	963	940	2.4%	1,810	1,695	6.8%
Total primary elevator shipments	2,179	2,137	2.0%	4,257	3,891	9.4%
Port terminal receipts						
Vancouver	759	964	(21.3%)	1,379	1,794	(23.1%)
Thunder Bay	324	305	6.2%	841	679	23.9%
Share of PRG	1,083	1,269	(14.7%)	2,220	2,473	(10.2%)
Total port terminal receipts	203	320	(36.6%)	508	449	13.1%
Total port terminal receipts	1,286	1,589	(19.1%)	2,728	2,922	(6.6%)

The Pool's earnings momentum in its Grain Handling and Marketing segment continued into the second quarter of fiscal 2007 with EBITDA more than doubling to \$27.6 million from the \$12.1 million generated in the comparable quarter last year. The second quarter this year includes net settlement of \$3.8 million in the Pool's favour relating to an outstanding legal matter.

On a year-to-date basis, EBITDA grew \$20.6 million to \$38.0 million from \$17.4 million earned in the first six months of fiscal 2006. Stronger volumes and margins, lower drying costs, and a focus on managing operating expenses were the primary contributors to the EBITDA growth.

EBIT for the quarter was \$24.2 million up from \$9.2 million in last year's second quarter and on a year-to-date basis was \$31.5 million versus \$11.6 million last year.

The Pool's gross margin per tonne for the quarter strengthened by 26.8% or \$4.73 to \$22.41 per tonne compared to \$17.68 per tonne in the second quarter of fiscal 2006. On a year-to-date basis, the Pool achieved a gross margin per tonne of \$20.63 compared to \$18.11 last year for the same period, a 13.9% increase. Both the fiscal 2007 quarter and year-to-date figures exclude the one-time item discussed above. The gross margin improvements reflect a significant recovery across all grain and oilseed products, particularly malt barley due to better crop quality. This, together with the impact of strong industry fundamentals on producers' marketing decisions is positive for this segment this year.

On February 10, 2007, Canadian National Railways Co. (CN) announced that its 2,800 conductors and yard-service employees went out on strike. The strike caused temporary service disruptions, which led to reduced port terminal unloads primarily in Vancouver and a backlog in the delivery of rail car orders to country elevators. On February 24, 2007, CN announced that it has reached a tentative settlement with the United Transportation Union (UTU) subject to ratification on March 26. Workers have begun to return to work.

The federal government is also considering changes to the CWB's mandate that could potentially remove its monopoly sales position on wheat, durum and barley. A plebiscite among barley growers to determine their views on the issue of marketing choice for barley is currently underway. Eligible western barley growers are voting on the issue and results are expected by the end of March. No decision has been made with respect to the process for determining the future marketing choice for wheat and durum.

Strong international markets led by bio-fuel production and supply shortages are contributing to strong demand for Pool originated grains and oilseeds products. In January 2007, the CWB and Agriculture and Agri-food Canada (AAFC) increased their total projected Canadian exports for fiscal 2007 to 28.0 mmt, an 8.1% increase over last year's exports.

<b>Canadian Grains and Oilseeds Exports*</b>			
(in mmt)	<b>Fiscal 2007 Estimate</b>	<b>Fiscal 2006 Actual</b>	<b>% Change</b>
CWB grains	19.0	17.1	11.1%
Non-Board grains & oilseeds	9.0	8.8	2.3%
<b>Total</b>	<b>28.0</b>	<b>25.9</b>	<b>8.1%</b>

\* Exports are adjusted to exclude product and other non-licensed exports

Lower production of wheat from major exporters such as the United States, European Union and Australia has reduced global supplies. Although Canada experienced slightly lower yields from the 2006 harvest, larger carry-over stocks from 2006 will help supply the increase in export demand this year. Canada's carry-over stocks may be depleted by as much as 42% by the end of fiscal 2007, returning to historical levels. Strong industry fundamentals are driving optimism within the farming community and expectations are that producers will maximize their planting opportunities this spring to capitalize on historically high commodity prices. The Pool expects grain shipments to remain strong for the remainder of the year given the high quality crops available for marketing and the increase in export movement.

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

Retail sales of agri-products are seasonal and correlate directly to the life cycle of the crop. On average, 62% of the segment's annual sales occur in the fourth quarter when producers purchase their crop inputs: seed, fertilizer and crop protection products. The majority of this segment's earnings are also generated in the fourth quarter. During the first three quarters, the Pool works closely with its customer base providing planning, agronomic and customized solutions in preparation for the next year's crop. The Pool also works with suppliers to position product and inventories in advance of the intense spring selling period.

A breakdown of the second quarter and year-to-date consolidated sales and other operating revenues by product follows:

<b>Agri-products Segment Sales and Other Operating Revenue</b>						
<b>For the Periods Ended January 31</b>						
(in thousands)	<b>Three Months</b>			<b>Six Months</b>		
	<b>2007</b>	<b>2006</b>	<b>% Change</b>	<b>2007</b>	<b>2006</b>	<b>% Change</b>
Fertilizer products*	\$ 71,727	\$ 83,459	(14.1%)	\$ 104,966	\$ 121,527	(13.6%)
Crop protection products	741	285	160.0%	11,108	9,711	14.4%
Other operating revenue	7,632	4,925	55.0%	12,925	11,938	8.3%
<b>Total</b>	<b>\$ 80,100</b>	<b>\$ 88,669</b>	<b>(9.7%)</b>	<b>\$ 128,999</b>	<b>\$ 143,176</b>	<b>(9.9%)</b>

\*Consolidated sales from the Pool's retail operations and the Pool's proportionate share from WCFL

Agri-products segment sales for the second quarter of fiscal 2007 were \$80.1 million compared to \$88.7 million in the same quarter last year. Lower fertilizer sales prices, the main factor in the 9.7% drop in the segment's sales, were offset by higher sales volumes in fertilizer together with stronger crop protection, seed and equipment sales. Sales and other operating revenues through the Pool's retail operations were up 5.0%

overall, while WCFL's sales were down 18.0% compared to the prior year's second quarter. Total sales volumes for WCFL were up slightly and were more than offset by lower fertilizer prices.

Fertilizer prices are typically lower in the fall and appreciate to higher levels in the spring when demand is strongest. Last year, the effects of Hurricane Katrina reversed the typical pricing patterns of natural gas, a key component in manufacturing fertilizer, and fertilizer prices peaked during the second quarter. This irregular activity was the main cause for the pricing variance in fertilizer sales between the quarterly and year-to-date reporting periods.

The Pool's crop protection products and canola seed sales benefited from higher demand for canola seed during the quarter. An anticipated increase in canola acreage of 10% to 15% this spring has prompted producers to purchase canola products in the second quarter rather than the third quarter in order to guarantee supply. Volumes of fertilizer sold through the Pool's retail operation were up in all major products with the exception of anhydrous ammonia, which was down due to wet fall conditions. This, together with lower sales prices, led to the 5.8% decline in the Pool's retail fertilizer sales for the second quarter.

For the six-month period, segment sales were \$129.0 million compared to \$143.2 million last year. Sales for the Pool's retail operations were down 6.2%, a direct result of a 14.2% decline in retail fertilizer sales. WCFL's sales were down 13.3% from last year's six-month period. The entire variance reflects the impact of lower sales prices for fertilizer that offset slightly higher volumes.

Sales of crop protection products were very strong, up 14.4% compared to the first half of last year. The early harvest in the fall, along with good weather and moisture conditions across the majority of the Prairies allowed for strong post-harvest applications. Strong canola seed sales were the primary factor contributing to the 8.3% increase in other operating revenues.

EBITDA for the segment's second quarter was \$1.3 million compared to nil in the second quarter of fiscal 2006. WCFL's second quarter contribution remained flat at \$5.5 million. Increased fertilizer sales volumes offset lower margins due to lower prices.

EBITDA from the Pool's retail operations improved by \$1.3 million to a loss of \$4.2 million. Margins were higher due to the timing of supplier rebates on crop protection products together with higher canola seed sales. On the expense side, higher commodity prices and better producer cash flow contributed to stronger collections of outstanding agri-products credit accounts, which led to a lower loan loss provision being recorded this quarter. Distribution costs were also lower this quarter reflecting a change in distribution suppliers during last year's second quarter.

The segment's EBIT for the quarter was a loss of \$1.6 million compared to a loss of \$2.8 million last year.

On a year-to-date basis, segment EBITDA was a loss of \$3.7 million compared to a loss of \$4.8 million recorded in last year's first six months. In the Pool's retail operations, EBITDA was a loss of \$10.9 million on par with last year's seasonal six-month loss. Margins for the retail operations were also consistent with the previous year's period. Lower distribution costs and a lower loan loss provision offset a decline in research and development revenue for the six-month period of fiscal 2007.

WCFL's EBITDA contribution for the first six months of fiscal 2007 was \$7.1 million, up 18.4% from \$6.0 million last year. Lower production costs and higher sales volumes improved margins. EBIT for the segment was a loss of \$9.4 million compared to last year's six-month loss of \$10.2 million.

The Pool's Agri-products segment is well positioned for the upcoming crop cycle. With larger acreages being committed to corn versus soybeans this year to support the American and European ethanol and biodiesel markets, more demand for canola is being created. Canola acreage is forecast to increase 10% to 15% this year, which will lead to increased seed demand and result in increased applications of nitrogen, an important product for the Pool and WCFL. Fertilizer prices are expected to rise given the tight supplies being created by a projected increase of U.S. corn acreage of six to seven million acres together with increased demand for urea in India, Pakistan and the Philippines. Strong agricultural fundamentals, good grain prices and favourable moisture levels in Western Canada will encourage farmers to increase plantings and make the necessary agri-products investment to support a successful crop.

#### **4.3 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. 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. Oats are priced in U.S. dollars and the world feed grain market predominantly drives prices. The price of finished goods moves up and down with the price of oats. A strong Canadian dollar can create foreign exchange challenges thus 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. 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 also a key factor in production and rising gas prices can impact margins. In addition, sales are priced in U.S. dollars. Prairie Malt reduces the impact of foreign currency fluctuations by engaging in hedging activities.

Sales in the Agri-food Processing segment for the quarter were \$35.9 million, up from \$30.8 million in the second quarter of fiscal 2006. Can-Oat Milling's sales increased 24.1% quarter-over-quarter reflecting an increase in finished and primary product sales and higher oat prices. Prairie Malt's sales were down 4.5% over the prior year's second quarter due to lower sales prices.

Segment EBITDA was \$4.6 million for the second quarter, down from \$5.1 million for the same period last year. Can-Oat's EBITDA contribution increased 8.2% on higher sales volumes that were partially offset by lower processing yields combined with higher production costs because of quality issues with this year's oat crop. Prairie Malt's EBITDA was down. Sales volumes remained constant with last year's second quarter but production costs rose significantly because of the increase in natural gas and transportation costs. EBIT for the Agri-food Processing segment for the quarter was \$3.2 million compared to \$3.9 million in last year's second quarter.

Segment sales for the six-months ended January 31, 2007, were \$72.3 million compared to \$60.3 million in the prior year. Can-Oat's sales increase of 22.1% reflects higher oat prices and strong customer demand for both finished and primary oat products, which is being driven by a growing appetite among consumers for heart-smart food choices. Prairie Malt's 13.0% increase in year-to-date sales resulted from higher sales volumes in the first quarter of fiscal 2007.

For the six-month period, segment EBITDA was \$7.7 million down from \$10.3 million in the same period last year. In the first quarter, the impact of rising oats costs on Can-Oat's mark-to-market oat position, together with lower processing yields, and a drop in rates for foreign exchange contracts lowered its margins. At Prairie Malt, margins and earnings were down because of excess industry capacity, a strong Canadian dollar and higher energy and transportation costs.

With the completion of the north mill at Can-Oat's Portage la Prairie plant on time and on budget, testing and processing has begun. Can-Oat's primary oat milling capacity will increase to 375,000 tonnes annually, positioning the Company to meet the growing demand of the health food industry for the long-term. Higher exports this year have caused oat prices to increase but higher sales prices throughout the industry will offset the impact on margins. This year, the quality of oats will require Can-Oat to employ flexible sourcing strategies and alter its manufacturing processing in order to maintain yields. As a result, the benefit of Can-Oat's expansion at Portage la Prairie and the acquisition of its plant in Barrhead are expected to be fully realized in 2008.

Despite a sluggish start this year, industry dynamics for Prairie Malt are improving. The quality of malt barley is high, there is a tight global supply and demand for beer products in North America, Mexico, Asia, and South America is growing. Prairie Malt has responded to market opportunities by beginning to malt six-row barley in addition to two-row barley, its traditional primary input. Excess capacity is starting to encourage rationalization of the North American malting industry. Any margin improvements this year will be offset by higher processing costs resulting from natural gas prices and increasing transportation costs.

## 5. LIQUIDITY AND CAPITAL RESOURCES

Over the past several years, the Pool has employed various financial strategies to strengthen its balance sheet to position the Company and provide the financial flexibility to allow it to pursue future growth strategies. It now has one of the strongest balance sheets in the industry. The Key Financial Information below provides a snapshot of key balance sheet items and illustrates the positive results that have been achieved from this disciplined focus on securing a strong financial foundation for the future.

The improvement in the Pool's financial position and ratios from January 31, 2006 to January 31, 2007 reflects the debt refinancing initiatives the Pool completed during fiscal 2006, along with its strong operating results. The Company's total debt-to-equity ratio is strong at 28:72 on January 31, 2007 compared to 34:66 on January 31, 2006 and 24:76 on July 31, 2006. As a result, the Pool's debt service costs have decreased. Additional information is in Section 5.2 of this Management's Discussion and Analysis.

<b>Key Financial Information</b>			
	<b>As at January 31, 2007</b>	<b>As at January 31, 2006</b>	<b>As at July 31, 2006</b>
<i>(in thousands, except ratios)</i>			
Current ratio (current assets/current liabilities)	1.68	1.79	2.28
Total debt-to-equity (total debt/(total debt + equity))	28:72	34:66	24:76
Long-term debt-to-equity (long-term debt/(long-term debt + equity))	19:81	29:71	19:81
Current assets	\$ 517,841	\$ 432,317	\$ 390,418
Current liabilities	308,815	241,477	171,033
Working capital	\$ 209,026	\$ 190,840	\$ 219,385
Total debt	\$ 182,859	\$ 198,326	\$ 143,010
Long-term debt	\$ 107,003	\$ 153,871	\$ 110,807
Shareholders' equity	\$ 465,095	\$ 376,565	\$ 461,430

## 5.1 Cash Flow Information

For the six months ended January 31, 2007, the Pool generated cash flow prior to working capital changes of \$25.3 million, an increase of \$23.4 million over last year. The improvement reflects higher EBITDA and lower cash interest expense. Most of the Pool's cash flow is generated in its final quarter during the spring and early summer months when farmers are purchasing the majority of their agri-products and are selling their grains and oilseeds to free up storage for the fall harvest.

(in thousands)	<b>Cash Flow Activities</b>		
	<b>For the Six Months Ended</b>		<b>For the Twelve Months Ended</b>
	<b>January 31, 2007</b>	<b>January 31, 2006</b>	<b>July 31, 2006</b>
<b>Earnings (loss) from continuing operations</b>	\$ 2,801	\$ (9,630)	\$ (6,844)
Adjustments for items not involving cash and/or continuing operations	22,464	11,487	60,593
<b>Cash flow prior to working capital changes</b>	25,265	1,857	53,749
Changes in non-cash working capital			
Accounts receivable	(27,508)	(480)	15
Inventories	(71,865)	(54,161)	(25,509)
Accounts payable	84,842	68,384	(2,429)
Prepaid expenses and deposits	(27,554)	(43,601)	7,663
<b>Changes in non-cash operating working capital – continuing operations</b>	(42,085)	(29,858)	(20,260)
<b>Cash from discontinued operations</b>	-	8,955	17,509
<b>Cash (used in) from operating activities</b>	\$ (16,820)	\$ (19,046)	\$ 50,998

	<b>Free Cash Flow</b>		
	<b>For the Six Months Ended</b>		<b>For the Twelve Months Ended</b>
	<b>January 31, 2007</b>	<b>January 31, 2006</b>	<b>July 31, 2006</b>
<b>Cash flow prior to working capital changes</b>	\$ 25,265	\$ 1,857	\$ 53,749
Capital expenditures	(20,761)	(8,153)	(29,985)
<b>Free cash flow</b>	\$ 4,504	\$ (6,296)	\$ 23,764

Accounts receivable at the end of January 31, 2007 were \$24.0 million higher than at January 31, 2006. Trade and other receivables were up \$13.0 million reflecting higher grain shipments during the first six months, while higher grain prices contributed to an \$11.0 million increase in the CWB grain receivable.

Inventory levels were \$43.2 million higher compared to January 31 last year. Non-Board grain inventories increased \$25.5 million over last year because of higher grain prices. Agri-products inventory increased by \$15.6 million. This reflects a carry-over of crop protection products due to wet conditions in the northeastern part of the province last year, together with a return to more normal pre-purchasing activity in advance of the spring selling season. These items were offset by a decrease in

fertilizer volumes held in inventory and lower-priced product compared to last year at this time.

Prepaid expenses and deposits were \$23.7 million lower compared to the balance at the end of January 2006. Lower agri-products deposits for fertilizer and the replacement in July 2006 of a \$10 million security deposit held by the Canadian Grain Commission with a letter of credit are the main factors in the decrease.

Accounts payable and accrued liabilities were up \$42.5 million over the balance at January 31, 2006. Lower priced fertilizer, shortages of canola seed and better producer cash flow resulted in record producer pre-payments of agri-products for the spring. The Pool received pre-payments of \$55.7 million, up \$11.0 million over last year. Trade payables were also up primarily reflecting the increase in agri-products inventories noted above. Accrued liabilities increased due to an additional accrual for the pension provision.

<b>Selected Working Capital Items</b>			
(in thousands)	<b>As at January 31, 2007</b>	<b>As at January 31, 2006</b>	<b>As at July 31, 2006</b>
Accounts receivable	\$ 152,399	\$ 128,406	\$ 123,176
Inventories	214,790	171,577	142,925
Prepaid expenses and deposits	40,628	64,338	13,074
Accounts payable and accrued liabilities	(229,788)	(187,265)	(129,940)
<b>Total selected working capital items</b>	<b>\$ 178,029</b>	<b>\$ 177,056</b>	<b>\$ 149,235</b>

## 5.2 Financing Activities

Long-term debt, including the current portion, was \$107.0 million at January 31, 2007, down from \$153.9 million at January 31, 2006. The decrease was mostly due to the refinancing of \$150 million of 12% Senior Subordinated Notes with \$100 million of 8% Senior Unsecured Notes and equity in April and May of 2006. The associated interest costs are almost half those recorded in the first six months of fiscal 2006 as a result.

### Debt Ratings

<b>Rating Agency</b>	<b>Corporate Rating</b>	<b>Bank Debt</b>	<b>Senior Unsecured Notes</b>	<b>Rating Action</b>
DBRS	NR*	BB (low)	B (high)	Under Review
Standard & Poor's	B+	BB	B	N/A

\* NR - not rated

On February 21, 2007, the Dominion Bond Rating Services (DBRS) changed its rating on Saskatchewan Wheat Pool Inc. to "Under Review with Developing Implications" from "Under Review with Positive Implications". On February 22, 2007, Standard & Poor's affirmed the rating on Saskatchewan Wheat Pool Inc. and removed the Company from "CreditWatch with positive implications". These actions

followed the announcement by Agricore United, James Richardson International and Ontario Teachers Pension Plan of their proposal to form Richardson Agricore.

### **5.3 Investing Activities**

Capital expenditures for the six months ended January 31, 2007, were \$20.8 million, up from \$8.2 million last year. The increase primarily reflects the upgrading of dust cleaning systems at the Pool's Vancouver port terminal and the expansion of Can-Oat Milling's Portage la Prairie plant which is scheduled for completion shortly.

The Pool expects consolidated capital expenditures of approximately \$40 million for fiscal 2007.

## **6. CORPORATE DEVELOPMENTS**

### **6.1 Pool's Extended Offer to Agricore United**

On November 7, 2006, the Pool announced its intention to acquire all of the securities of Agricore United in an effort to merge the two organizations. The resulting company would create the scale and scope of operations to enhance Western Canada's position in agriculture's global environment. It would address the problem of over-capacity in the industry and bring new efficiencies to Western Canada and to Prairie producers. The combination would have strong geographic representation to reduce risk associated with adverse weather conditions that affect crop quality, production volumes and agri-products sales. Estimated net synergies of approximately \$60 million are expected and would accrue to future shareholders of the combined entity on a pro rata basis. As well, the new company would have an extensive portfolio of long-lived assets, operate under a modern governance model and become a Canadian leader in the global agricultural marketplace.

On January 23 and 25, 2007, the Pool announced an extension and variation of its November 7, 2006 offer for Agricore United's outstanding securities. The terms of the extended offer are as follows:

- Each of Agricore's Limited Voting Common Shares would be exchanged for \$11.33 cash, or
- 1.3601 common shares of the Pool, or
- any combination of cash and shares subject to pro ration, which assuming full pro ration would entitle each Common Shareholder to receive C\$3.00 in cash and 1.00 Pool share for each Agricore share tendered,
- the maximum amount of cash payable by the Pool will not exceed C\$180.8 million,
- the maximum number of Pool shares issuable by the Pool will not exceed 60.3 million Pool shares.

Each of Agricore's Series A Convertible Preferred Shares will be exchanged for \$24.00 in cash, plus any accrued and unpaid dividend.

## **6.2 Subscription Receipt Offering**

The Pool initiated a \$70 million public subscription receipt offering on January 25, 2007, and increased the offering the following day to \$100 million on a bought deal basis through a syndicate comprised of Genuity Capital Markets and TD Securities Inc. (the Underwriters) acting as joint bookrunners, at a price of \$8.10 per subscription receipt.

The Underwriters have been granted an over-allotment option, which entitles them to purchase up to an additional 1.85 million subscription receipts at the Offering price of \$8.10 per subscription receipt. Proceeds from the public offering not used in connection with the Agricore offer will be used to fund transaction costs and for general corporate purposes.

In addition to the public offering, the Pool entered into a concurrent subscription receipt agreement on a private placement basis with Third Avenue Management LLC (TAM). TAM agreed to purchase 15.8 million subscription receipts on behalf of various funds and accounts over which they have exclusive investment authority. Gross proceeds of approximately \$125 million were raised through this placement.

Each subscription receipt entitles the holder to receive one common share of the Pool upon the initial take-up by the Pool at or before 5:00 p.m. (Toronto time) on April 30, 2007, of outstanding Limited Voting Common Shares of Agricore under the Offer (see 6.1 above). If the Pool does not take-up and pay pursuant to the Offer by this time or the Offer is terminated or the Pool otherwise publicly announces its intention not to proceed with the Offer, holders of subscription receipts will receive within three business days of such event, an amount in cash equal to the original purchase price per receipt, together with their pro rata share of the interest (if any) earned on such amounts (less applicable withholding tax, if any).

The subscription receipts public offering closed on February 15, 2007, and were issued to the public pursuant to a short form prospectus filed with securities regulatory authorities in each province of Canada. The subscription receipts began trading on the Toronto Stock Exchange under the trading symbol SWP.R on February 15, 2007. The private placement with TAM also closed on February 15, 2007.

On February 21, 2007, a competing offer for Agricore was announced. Although there is no assurance which offer Agricore shareholders will approve, if any, the Company believes that a Pool proposal can provide more attractive value to Agricore shareholders. The Company remains committed to the process.

## **7. NON-GAAP FINANCIAL MEASURES**

EBITDA (earnings from continuing operations before interest, taxes, and amortization) and EBIT (earnings from continuing operations before interest and taxes) are non-GAAP measures. Such measures do not have any standardized meanings prescribed by Canadian generally accepted accounting principles (GAAP) and are therefore unlikely to be comparable to similar measures presented by other corporations. These measures are intended to provide further insight with respect to the Pool's financial results and to supplement its information on earnings (losses) as determined in accordance with GAAP.

EBITDA is used by management to assess the cash generated by continuing operations as it excludes amortization, which is a non-cash item. EBIT is a measure of earnings from continuing operations prior to debt service costs and taxes.

Cash flow prior to working capital changes is the cash from or used in operating activities excluding non-cash working capital changes and cash from discontinued operations. The Pool uses cash flow prior to working capital changes as a financial measure for the evaluation of liquidity. Management believes that excluding the seasonal swings of non-cash working capital and the extraordinary nature of discontinued operations assists management's evaluation of long-term liquidity.

Free cash flow is cash flow prior to working capital changes less capital expenditures. Free cash flow is used by management to assess liquidity and financial strength. This measurement is also useful as an indicator of the Company's ability to service its debt, meet other payment obligations and make strategic investments. Readers should be aware that free cash flow does not represent residual cash flow available for discretionary expenditures.

These non-GAAP measures should not be considered in isolation from or as a substitute for GAAP measures such as (i) net earnings (loss), as an indicator of the Company's profitability and operating performance or (ii) cash flow from or used in continuing operations, as a measure of the Company's ability to generate cash.

## **8. FORWARD-LOOKING INFORMATION**

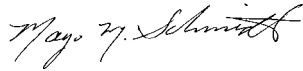
Certain statements in this Management's Discussion and Analysis are forward-looking statements and reflect the Pool's expectations regarding future results of operations, financial condition and achievements. All statements that address activities, events or developments that the Pool or its management 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, 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 Annual Information Form and in the Pool’s Annual Report under the heading “Risk Management” in the 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 Corporation’s financial leverage and funding requirements; credit risk in respect of customers of the Pool; foreign exchange risk and counter party 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, and other operations; and environmental risks and unanticipated expenditures relating to environmental or other matters.

All of the forward-looking statements in the Management’s Discussion and Analysis are qualified by these cautionary statements and the other cautionary statements and factors contained herein and there can be no assurance that the developments or results anticipated by the Pool 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 document. In addition to other assumptions identified, assumptions have been made regarding, among other things: western Canadian and, in particular, Saskatchewan crop production and quality for the 2007 fiscal year and subsequent crop years; the volume and quality of grain held on farm by producer customers; movement and sales of Board grains by the Canadian Wheat Board; agricultural commodity prices; general financial conditions for western Canadian agricultural producers; demand for seed grain, fertilizer, chemicals and other agri-products by our customers; market share of grain deliveries and agri-products sales that will be achieved by the Pool; extent of customer defaults in connection with credit provided by the Pool or Farm Credit Canada in connection with agri-products purchases; demand for oat and malt barley products and market share of sales of these products that will be achieved by the Pool’s subsidiaries; the impact of competition; environmental and reclamation costs; the ability to obtain and maintain existing financing on acceptable terms; and currency, exchange and interest rates. 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.

## 9. ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis relating to the second quarter ended January 31, 2007, should be read in conjunction with the Pool's Management's Discussion & Analysis for its year ended July 31, 2006, which is included at pages 30 to 68 of the Pool's 2006 Annual Report. Additional information relating to the Pool, including its most recent Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and the Pool's website [www.swp.com](http://www.swp.com).



Mayo Schmidt  
President and Chief Executive Officer



Wayne Cheeseman  
Chief Financial Officer

February 27, 2007

Saskatchewan Wheat Pool Inc.  
2625 Victoria Avenue,  
Regina, Saskatchewan S4T 7T9  
<http://www.swp.com>

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

(in thousands)

<b>AS AT</b>	<b>January 31, 2007</b>	<b>January 31, 2006</b>	<b>July 31, 2006</b>
	(unaudited)	(unaudited)	(audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	\$ 20,478	\$ 24,113	\$ 5,071
Cash in trust (Note 13b)	30,830	32,035	508
Short-term investments (Note 3)	57,897	9,379	104,892
Accounts receivable	152,399	128,406	123,176
Inventories	214,790	171,577	142,925
Prepaid expenses and deposits	40,628	64,338	13,074
Future income taxes	819	2,469	772
	<b>517,841</b>	<b>432,317</b>	<b>390,418</b>
<b>Investments</b>	<b>4,788</b>	<b>5,582</b>	<b>4,904</b>
<b>Property, Plant and Equipment</b>	<b>259,975</b>	<b>246,494</b>	<b>255,552</b>
<b>Other Long-Term Assets (Note 4)</b>	<b>24,877</b>	<b>12,648</b>	<b>20,605</b>
<b>Future Income Taxes</b>	<b>102,551</b>	<b>102,670</b>	<b>102,551</b>
	<b>\$ 910,032</b>	<b>\$ 799,711</b>	<b>\$ 774,030</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Bank indebtedness (Note 5)	\$ 1,560	\$ 2,062	\$ 13,238
Short-term borrowings (Note 6)	55,536	22,365	-
Members' demand loans	18,760	20,028	18,965
Accounts payable and accrued liabilities	229,788	187,265	129,940
Long-term debt due within one year (Note 7)	3,171	9,757	8,890
	<b>308,815</b>	<b>241,477</b>	<b>171,033</b>
<b>Long-Term Debt (Note 7)</b>	<b>103,832</b>	<b>144,114</b>	<b>101,917</b>
<b>Other Long-Term Liabilities</b>	<b>30,497</b>	<b>34,342</b>	<b>37,616</b>
<b>Future Income Taxes</b>	<b>1,793</b>	<b>3,213</b>	<b>2,034</b>
	<b>444,937</b>	<b>423,146</b>	<b>312,600</b>
<b>Shareholders' Equity</b>			
Share capital (Note 8)	502,760	439,485	502,760
Contributed surplus	316	276	308
Retained earnings (deficit)	(37,981)	(63,196)	(41,638)
	<b>465,095</b>	<b>376,565</b>	<b>461,430</b>
	<b>\$ 910,032</b>	<b>\$ 799,711</b>	<b>\$ 774,030</b>

Commitments, contingencies and guarantees (Notes 13 and 14)

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

FOR THE PERIOD ENDED	Three Months Ended January 31, 2007 (unaudited)	Three Months Ended January 31, 2006 (unaudited)	Six Months Ended January 31, 2007 (unaudited)	Six Months Ended January 31, 2006 (unaudited)
<b>Sales and Other Operating Revenues</b>	\$ 448,236	\$ 367,725	\$ 789,498	\$ 641,682
<b>Cost of Sales and Expenses</b>				
Cost of sales and operating expenses	405,774	342,143	730,980	603,238
Selling and administrative expenses	16,080	14,543	29,340	27,371
Depreciation and amortization	7,713	6,960	15,164	13,728
Provision for pension settlement (Note 10b)	5,000	-	5,000	-
	434,567	363,646	780,484	644,337
<b>Earnings (Loss) Before Interest and Taxes</b>	13,669	4,079	9,014	(2,655)
Interest expense (Note 11)	3,056	5,970	5,807	11,921
<b>Earnings (Loss) Before Corporate Taxes</b>	10,613	(1,891)	3,207	(14,576)
Provision for (recovery of) corporate taxes	2,678	85	406	(4,946)
<b>Net Earnings (Loss) From Continuing Operations</b>	7,935	(1,976)	2,801	(9,630)
<b>Net Recovery From Discontinued Operations</b>	-	4,921	-	4,921
<b>Net Earnings (Loss)</b>	7,935	2,945	2,801	(4,709)
<b>Retained Earnings (Deficit), Beginning of Period</b>	(46,772)	(66,141)	(41,638)	(58,487)
Future income taxes - adjustment	856	-	856	-
<b>Retained Earnings (Deficit), End of Period</b>	\$ (37,981)	\$ (63,196)	\$ (37,981)	\$ (63,196)
<b>Basic and Diluted Earnings (Loss) Per Share (Note 8b)</b>				
<b>From Continuing Operations</b>	\$ 0.09	\$ (0.02)	\$ 0.03	\$ (0.12)
<b>Net Earnings (Loss)</b>	\$ 0.09	\$ 0.04	\$ 0.03	\$ (0.06)

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

(in thousands)

<b>FOR THE PERIOD ENDED</b>	<b>Three Months Ended January 31, 2007</b>	<b>Three Months Ended January 31, 2006</b>	<b>Six Months Ended January 31, 2007</b>	<b>Six Months Ended January 31, 2006</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Cash From (Used in) Operating Activities</b>				
Earnings (loss) from continuing operations	\$ 7,935	\$ (1,976)	\$ 2,801	\$ (9,630)
Adjustments for items not involving cash and/or continuing operations				
Amortization	7,713	6,960	15,164	13,728
Future income tax provision (recovery)	2,917	(327)	568	(5,566)
Provision for pension settlement (Note 10b)	5,000	-	5,000	-
Post employment benefit (Note 10a)	224	472	455	930
Non-cash interest expense (Note 11)	491	1,008	982	1,995
Gain on sale of property, plant and equipment	(26)	(80)	(79)	(206)
Other items	263	363	374	606
Adjustments for items not involving cash and/or continuing operations	16,582	8,396	22,464	11,487
Changes in non-cash working capital items				
Accounts receivable	3,582	27,226	(27,508)	(480)
Inventories	(32,220)	(21,974)	(71,865)	(54,161)
Accounts payable	21,862	6,714	84,842	68,384
Prepaid expenses and deposits	(29,428)	(26,017)	(27,554)	(43,601)
Changes in non-cash working capital - continuing operations	(36,204)	(14,051)	(42,085)	(29,858)
Cash used in operating activities - continuing operations	(11,687)	(7,631)	(16,820)	(28,001)
Cash from discontinued operations	-	2,224	-	8,955
Cash used in operating activities	(11,687)	(5,407)	(16,820)	(19,046)
<b>Cash From (Used in) Financing Activities</b>				
Repayment of long-term debt	(2,888)	(1,106)	(3,804)	(1,737)
Proceeds from short-term borrowings	55,536	21,219	55,536	21,973
Repayment of other long-term liabilities, net	(112)	(1)	(151)	(168)
Proceeds from (repayment of) members' demand loans	466	258	(205)	(1,448)
Other items	-	(452)	(52)	(463)
Cash from financing activities	53,002	19,918	51,324	18,157
<b>Cash From (Used in) Investing Activities</b>				
Property, plant and equipment expenditures	(8,390)	(4,455)	(20,761)	(8,153)
Proceeds on sale of property, plant and equipment	116	90	215	202
Increase in cash in trust	(25,936)	(27,523)	(30,322)	(31,264)
Decrease (increase) in investments	187	246	187	(143)
Business acquisition costs	(2,134)	-	(2,134)	-
Increase in other long-term assets	(902)	(345)	(1,599)	(1,601)
Cash used in investing activities	(37,059)	(31,987)	(54,414)	(40,959)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>4,256</b>	<b>(17,476)</b>	<b>(19,910)</b>	<b>(41,848)</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>72,559</b>	<b>48,906</b>	<b>96,725</b>	<b>73,278</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 76,815</b>	<b>\$ 31,430</b>	<b>\$ 76,815</b>	<b>\$ 31,430</b>
Cash and cash equivalents consist of:				
Cash	\$ 20,478	\$ 24,113	\$ 20,478	\$ 24,113
Short-term investments	57,897	9,379	57,897	9,379
Bank indebtedness	(1,560)	(2,062)	(1,560)	(2,062)
	\$ 76,815	\$ 31,430	\$ 76,815	\$ 31,430
Supplemental disclosure of cash paid during the period from continuing operations:				
Interest paid	\$ 1,335	\$ 5,333	\$ 6,366	\$ 10,228
Income taxes paid, net	\$ 398	\$ 1,469	\$ 398	\$ 1,889

## **SASKATCHEWAN WHEAT POOL INC.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2007 (unaudited) - in thousands of Canadian dollars, except as noted

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#### **1. NATURE OF BUSINESS**

Saskatchewan Wheat Pool Inc. (the Company) is a publicly traded, vertically integrated Canadian agri-business. Business operations include three reporting segments: Grain Handling and Marketing, Agri-products and Agri-food Processing.

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 (unaudited) - in thousands of Canadian dollars, except as noted

### 2. ACCOUNTING POLICIES

The unaudited interim consolidated financial statements (“interim financial statements”) include the accounts of Saskatchewan Wheat Pool Inc., its subsidiaries and affiliated companies and have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). These interim financial statements do not include disclosures normally provided in annual financial statements and should be read in conjunction with the Company’s fiscal 2006 Annual Report.

#### a) Use of Estimates

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

The interim financial statements are based upon accounting principles consistent with those used and described in the annual financial statements.

#### b) Investments

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

The Company’s non-controlling interest in Prince Rupert Grain terminal (PRG) is recorded at a nominal amount since the value of the debt exceeds the depreciated value of the terminal. At January 31, 2007, PRG has approximately \$310 million in loans due to a third party. The loans mature in 2015 (\$196 million) and 2035 (\$114 million) and are secured by the terminal without recourse to the consortium members.

### 3. SHORT-TERM INVESTMENTS

	January 31		July 31
	2007	2006	2006
Saskatchewan Wheat Pool Inc.	\$ 40,000	\$ -	\$ 77,955
Subsidiaries and proportionate share of joint ventures	17,897	9,379	26,937
	\$ 57,897	\$ 9,379	\$ 104,892

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 (unaudited) - in thousands of Canadian dollars, except as noted

### 4. OTHER LONG-TERM ASSETS

	January 31, 2007		January 31, 2006		July 31, 2006	
	Accumulated Amortization		Accumulated Amortization		Accumulated Amortization	
Deferred pension assets	\$ 9,022	\$ -	\$ 4,698	\$ -	\$ 9,395	\$ -
Deferred financing costs	7,533	3,189	4,659	1,294	7,533	2,207
Acquisition costs	5,890	-	-	-	-	-
Other	7,182	1,561	5,407	822	7,093	1,209
	29,627	\$ 4,750	14,764	\$ 2,116	24,021	\$ 3,416
Accumulated amortization	(4,750)		(2,116)		(3,416)	
	\$ 24,877		\$ 12,648		\$20,605	

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

Amortization of deferred financing costs of \$1.0 million for the six months ended January 31, 2007 (2006 – \$0.8 million) is included in interest expense. Amortization of other assets of \$0.4 million (2006 - \$0.3 million) is included in amortization expense.

Acquisition costs represent incremental costs incurred in relation to the Company's offer for United Grain Growers Limited, carrying on business as Agricore United (Agricore) (see Note 14).

On February 21, 2007 a competing offer for Agricore was announced. Although there is no assurance which bid, if any, the shareholders of Agricore will approve, the Company continues to be actively engaged in completing the acquisition transaction. If in the future, the Company abandons its bid, costs previously deferred will be expensed.

### 5. BANK INDEBTEDNESS

	January 31		July 31
	2007	2006	2006
Saskatchewan Wheat Pool Inc.	\$ -	\$ -	\$ 13,238
Subsidiaries and proportionate share of joint ventures	1,560	2,062	-
	\$ 1,560	\$ 2,062	\$ 13,238

### 6. SHORT-TERM BORROWINGS

	January 31		July 31
	2007	2006	2006
Saskatchewan Wheat Pool Inc.	\$ 49,994	\$ 21,237	\$ -
Subsidiaries and proportionate share of joint ventures	5,542	1,128	-
	\$ 55,536	\$ 22,365	\$ -

The Company has a \$250 million senior secured asset backed revolving loan with a syndicate of financial institutions that matures in March 2008 and is secured by the assets of the Company. Interest is currently payable monthly at prime plus 0.5%.

At January 31, 2007, the Company had outstanding letters of credit and similar instruments of \$35.1 million related to operating an agri-business (January 31, 2006 - \$25.1 million; July 31,

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 (unaudited) - in thousands of Canadian dollars, except as noted

2006 - \$35.1 million). These instruments effectively reduce the amount of cash that can be drawn on the revolving credit facility.

At January 31, 2007, availability under the asset backed revolving loan facility was \$69.1 million (January 31, 2006 - \$56.8 million; July 31, 2006 - \$59.5 million).

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

### 7. LONG-TERM DEBT

	January 31		July 31
	2007	2006	2006
Senior Unsecured Notes (a)	\$ 100,000	\$ -	\$ 100,000
Senior Subordinated Notes (b)	-	141,148	-
Members' term loans (c)	4,853	5,139	5,276
Sub-total	104,853	146,287	105,276
Subsidiaries' and proportionate share of joint ventures' secured debt (c)	2,150	7,584	5,531
Total consolidated long-term debt	107,003	153,871	110,807
Less portion due within one year:			
Members' term loans	2,741	2,173	3,359
Subsidiaries' and proportionate share of joint ventures' debt	430	7,584	5,531
Long-term debt due within one year	3,171	9,757	8,890
Total long-term debt	\$ 103,832	\$ 144,114	\$ 101,917

**a) Senior Unsecured Notes**

- On April 6, 2006, the Company completed the offering of \$100 million of 8% Senior Unsecured Notes due April 8, 2013. Net proceeds from the offering assisted in funding the early redemption of the 12% Senior Subordinated Notes on May 5, 2006.

**b) Senior Subordinated Notes**

- On May 5, 2006, the Senior Subordinated Notes were redeemed at the full early redemption price of \$153 million.

**c) Other**

- Members' term loans are unsecured and consist of one-year to seven-year loans with non-institutional investors and employees. Interest is payable semi-annually at interest rates which vary from 4% to 9%.
- The subsidiaries' and the proportionate share of joint ventures' debts bear interest at variable rates. The debts mature in 2011. The debts are secured by certain assets and some are subject to meeting certain covenants.
- The Company does not guarantee nor does it have responsibility for the repayment of the subsidiaries' or joint ventures' debts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 (unaudited) - in thousands of Canadian dollars, except as noted

### 8. SHARE CAPITAL

#### a) Common Voting Shares

Authorized

Unlimited Common Voting Shares

The following table summarizes the Common Voting Shares for the six month periods ended January 31, 2007 and January 31, 2006.

	Common Voting Shares	
	Number <sup>1</sup>	Amount
Balance, July 31, 2005 and January 31, 2006	81,834,137	\$ 439,485
Share issuance	6,700,000	50,250
Share issuance – over-allotment	670,000	5,025
Share issuance – private placement	1,046,627	8,000
Balance, July 31, 2006 and January 31, 2007	90,250,764	\$ 502,760

<sup>1</sup>Number of shares are not shown in thousands

#### Issuance

On April 5, 2006, the Company issued 6,700,000 common shares as part of a \$50.25 million offering. On May 9, 2006, an additional \$5.025 million was raised and 670,000 common shares were issued related to an Over-Allotment Option granted to a syndicate of underwriters associated with the initial offering. Total underwriters' fees and other costs, associated with the offering were approximately \$2.5 million. In accordance with the capital nature of these transactions, the associated costs were reflected as a charge to shareholders' equity and reflected in the retained earnings (deficit) of the Company. Net proceeds from the offering assisted in funding the early redemption of the 12% Senior Subordinated Notes on May 5, 2006 (see Note 7b).

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

#### b) Earnings (Loss) Per Share

	Three Months Ended January 31		Six Months Ended January 31	
	2007	2006	2007	2006
Net earnings (loss)	\$ 7,935	\$ 2,945	\$ 2,801	\$ (4,709)
Less: Net earnings (loss) from continuing operations	7,935	(1,976)	2,801	(9,630)
Net recoveries from discontinued operations	\$ -	\$ 4,921	\$ -	\$ 4,921
<hr/>				
Denominator for basic earnings (loss) per share amounts:				
Weighted average number of shares outstanding	90,251	81,834	90,251	81,834
<hr/>				
Basic earnings (loss) per share:				
Continuing operations	\$ 0.09	\$ (0.02)	\$ 0.03	\$ (0.12)
Discontinued operations	\$ -	\$ 0.06	\$ -	\$ 0.06
Net earnings (loss) per share	\$ 0.09	\$ 0.04	\$ 0.03	\$ (0.06)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 (unaudited) - in thousands of Canadian dollars, except as noted

	Three Months Ended January 31		Six Months Ended January 31	
	2007	2006	2007	2006
Denominator for diluted earnings (loss) per share amounts:				
Weighted average number of shares outstanding	90,253	81,834	90,253	81,834
Diluted earnings (loss) per share:				
Continuing operations	\$ 0.09	\$ (0.02)	\$ 0.03	\$ (0.12)
Discontinued operations	\$ -	\$ 0.06	\$ -	\$ 0.06
Net earnings (loss) per share	\$ 0.09	\$ 0.04	\$ 0.03	\$ (0.06)

Diluted earnings (loss) per share is calculated based on the weighted average number of shares issued and outstanding during the period. The denominator is (1) increased by the total of the additional common shares that would have been issued assuming exercise of all stock options with the exercise prices at or below the average market price for the period; and (2) decreased by the number of shares that the company could have repurchased if it had used the assumed proceeds from the exercise of stock options to repurchase them on the open market at the average share price for the period.

For periods in which there was a loss applicable to common shares, stock options with exercise prices at or below the average market price for the year were excluded from the calculation of diluted net loss per share, as inclusion of these securities would have been anti-dilutive to the net loss per share.

### 9. STOCK-BASED COMPENSATION PLANS

The Company has four stock-based compensation plans: a management stock option plan, which became inactive during fiscal 2004, a deferred share unit (DSU) plan for independent directors and a restricted share unit (RSU) plan and a performance share unit (PSU) plan for designated executives.

#### a) Deferred Share Units

In fiscal 2006, the Company began offering a DSU plan to independent directors. A DSU is a notional unit that reflects the market value of a single common share of the Company. In this plan, 40% of each director's annual retainer is paid in DSUs. In addition, on an annual basis directors can elect to receive any percentage from 40% to 100% of their annual retainer and any additional fees for the immediately succeeding year in the form of DSUs. Each DSU fully vests upon award. The DSUs will be redeemed for cash, or for common shares of the Company purchased on the open market, at the director's option upon a director leaving the Board. The redemption amount will be based upon the weighted average of the closing prices of the common shares of the Company on the Toronto Stock Exchange for the last 20 trading days prior to the redemption date multiplied by the number of DSUs held by the director. As at January 31, 2007, the total DSUs held by directors was 112,234 (2006 – 46,330). The Company recorded compensation costs related to outstanding DSUs for the respective three and six month periods ended January 31, 2007 of \$0.2 million and \$0.3 million (2006 - \$0.2 million and \$0.3 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 (unaudited) - in thousands of Canadian dollars, except as noted

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**b) Restricted Share Units**

In fiscal 2006, the Company began providing each designated executive an annual grant of RSUs as part of their compensation. Each RSU represents one notional common share that entitles the participant to a payment of one common share of the Company, purchased on the open market, or an equivalent cash amount at the Company's discretion. RSUs vest at the end of a three-year period. Holders of RSUs have the option of converting to an equivalent number of DSUs 60 days prior to vesting. As at January 31, 2007, the total RSUs granted was 224,637 (2006 – 160,875). The Company recorded compensation costs related to outstanding RSUs for the respective three and six month periods ended January 31, 2007 of \$0.3 million and \$0.4 million (2006 - \$0.1 million and \$0.2 million).

**c) Performance Share Units**

In fiscal 2006, the Company began providing each designated executive an annual grant of PSUs as part of their compensation. The performance objectives under the plan are designed to further align the interest of the designated executive with those of shareholders by linking the vesting of awards to EBITDA over the three-year performance period. The number of PSUs that ultimately vest will vary based on the extent to which actual EBITDA matches budgeted EBITDA for the three-year period. Each PSU represents one notional common share that entitles the participant to a payment of one common share of the Company, purchased on the open market, or an equivalent cash amount at the Company's discretion. PSUs vest at the end of a three-year period. The final value of the PSUs will be based on the value of the Company's stock at the end of the three-year period and the number of PSUs that ultimately vest. Vesting of PSUs at the end of the three-year period will be based on total EBITDA and whether the participating executive remains employed by the Company at the end of the three-year vesting period. Holders of PSUs have the option of converting to an equivalent number of DSUs 60 days prior to vesting. As at January 31, 2007, the total PSUs granted to designated executives was 673,913 (2006 – 482,625). The Company recorded compensation costs related to outstanding PSUs for the respective three and six month periods ended January 31, 2007 of \$1.0 million and \$1.4 million (2006 - \$0.3 million and \$0.7 million).

**d) Management Stock Option Plan**

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

The expense related to stock options is based on the fair value of options vested in the year, and is determined by the Black-Scholes option pricing model with the following assumptions: risk free rate 4.4% to 4.85%, dividend yield 0%, a volatility factor of the expected market price of the Company's shares of 100, and a weighted average expected option life of five years. For the six month periods ended January 31, 2007 and January 31, 2006, a negligible amount was expensed as stock-based compensation related to stock options.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 (unaudited) - in thousands of Canadian dollars, except as noted

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Of the 85,149 outstanding stock options at January 31, 2007, 13% have an exercise price of \$6.50 or less; the remainder have an exercise price at, or greater than, \$31. Of the options exercisable at January 31, 2007, 10% have an exercise price of \$6.50 or less; the remainder have an exercise price at, or greater than, \$31. At January 31, 2007, the shares closed at \$8.55.

### 10. POST EMPLOYMENT BENEFITS

- a) The Company's net benefit cost related to defined benefit pension plans and retiring allowances for the respective three and six month periods ended January 31, 2007 is \$0.2 million and \$0.4 million (2006 - \$0.4 million and \$0.9 million).
- b) The Company, not including subsidiaries and affiliates, contributes to three defined contribution plans of which one is a multi-employer plan. The Company's total contribution expense, including the subsidiaries' and proportionate share of joint ventures' defined contribution plans for the respective three and six month periods ended January 31, 2007 is \$0.9 million and \$1.9 million (2006 - \$1.1 million and \$2.0 million).

One of the plans that the Company contributes to is the Saskatchewan Wheat Pool/Grain Services Union Pension Plan, a closed negotiated cost plan that provides defined benefits on the basis of fixed contributions, that are negotiated between the Company and the Grain Services Union (GSU), to approximately 1,400 former employees and 600 active 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. The Plan is administered by a board of trustees (the "Trustees"), three of whom are appointed by the Company and three of whom are appointed by the GSU. The Trustees have limited powers to amend the Plan without agreement of the GSU and the Company.

On September 22, 2005, the Office of the Superintendent of Financial Institutions (OSFI) expressed concern about the solvency of the Plan and based on its own financial tests ordered that transfers from the Plan made by members exercising portability rights be restricted to 80% of the accrued value of their benefits. The remaining portion would be paid out over the following five-year period, assuming the Plan does not wind-up. A formal actuarial valuation on the Plan as at December 31, 2005 was filed with OSFI in June 2006. The report indicates a solvency deficiency of \$38.8 million and a going concern surplus of \$7.9 million. Pension regulations require the solvency deficiency as at December 31, 2005 to be addressed over a five-year period through equal quarterly installments plus interest. With a \$38.8 million solvency deficiency, additional contributions (deficiency payments) of approximately \$2.2 million per quarter would be required over a five-year period or until termination of the Plan.

The Plan cannot be wound up or amended to address the solvency issue without the agreement of the Company and the GSU. In written correspondence in March and April 2006, OSFI indicated it was the duty of the GSU and the Company to act in good faith to restore the solvency of the Plan and pointed out that the Pension Benefits Standards Act does not provide for different funding requirements for a closed negotiated cost plan that provides defined benefits, and that accordingly in respect of such plans, OSFI's view is that

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 (unaudited) - in thousands of Canadian dollars, except as noted

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the employer is responsible for making special and normal cost payments to the pension fund. On October 18, 2006 the Company advised OSFI that the GSU had rejected the Company's final offer to fund 50% of the deficiency up to a maximum of \$20 million. On October 26, 2006, OSFI notified the Company of its intention to direct the Company to make deficiency payments as they fall due and all overdue payments, subject to receiving written submissions by November 14, 2006. The Company filed its submissions on November 3, 2006, taking the position that it is in compliance with all of its funding obligations in respect of the Plan, that it is not responsible for ongoing deficiency payments, and that in the absence of an agreement with the GSU to amend the Plan to bring it into compliance with the provisions of applicable pension legislation (requiring the Plan to provide for funding in accordance with prescribed tests and standards for solvency), the Plan should be terminated.

On November 20, 2006, after reviewing further submissions from the Company and the GSU, OSFI issued a Direction requiring the Company to make payments of deficiency arrears of \$6.8 million before November 30, 2006 and ongoing quarterly installments relating to the solvency deficiency of approximately \$2.2 million as they fall due thereafter. OSFI and the Company are discussing terms on which OSFI's November 20, 2006 direction to SWP may be stayed pending the outcome of the legal proceedings. The Company is seeking judicial review of the Direction and an order to terminate the Plan in the Federal Court of Canada. The Company's position is that it is in compliance with all of its funding obligations in respect of the Plan, that it is not responsible for deficiency payments while the Plan remains ongoing, and that in the absence of an agreement with the GSU to amend the Plan to bring it into compliance with applicable pension legislation (which requires Plan terms to provide for funding in accordance with prescribed tests and standards for solvency) the Plan should be terminated.

In fiscal 2006 the Company recorded a charge of \$15 million in connection with potential obligations with respect to the Plan. Due to events occurring in the second quarter of fiscal 2007, management has revisited the provision for pension settlement relating to the Plan and has recorded an additional charge of \$5 million to reflect the Company's best estimate at this time of the minimum cost to the Company of resolving the dispute. 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 cost to the Company will be \$20 million. There is a continuing risk that the Company may ultimately be held responsible for an increase in contributions beyond this \$20 million provision.

A formal valuation at December 31, 2006 is being conducted to determine the extent of the solvency deficiency and is due to be filed with OSFI by June 30, 2007. The Company has received a preliminary estimate that the solvency deficiency is approximately \$29 million as of December 31, 2006.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 (unaudited) - in thousands of Canadian dollars, except as noted

### 11. INTEREST EXPENSE

	Three Months Ended January 31		Six Months Ended January 31	
	2007	2006	2007	2006
Saskatchewan Wheat Pool Inc.				
Interest	\$ 2,619	\$ 4,909	\$ 4,958	\$ 9,931
Non-cash accretion	-	620	-	1,219
Amortization of deferred financing costs	491	388	982	776
Subsidiaries' and proportionate share of joint ventures' interest	(54)	53	(133)	(5)
	<b>\$ 3,056</b>	<b>\$ 5,970</b>	<b>\$ 5,807</b>	<b>\$ 11,921</b>

### 12. SEGMENTED INFORMATION

	Three Months Ended January 31		Six Months Ended January 31	
	2007	2006	2007	2006
<b>Sales</b>				
Grain Handling and Marketing	\$ 334,179	\$ 252,592	\$ 592,203	\$ 446,766
Agri-products	80,100	88,669	128,999	143,176
Agri-food Processing	35,941	30,818	72,278	60,257
	450,220	372,079	793,480	650,199
Less: Intersegment Sales	1,984	4,354	3,982	8,517
	<b>\$ 448,236</b>	<b>\$ 367,725</b>	<b>\$ 789,498</b>	<b>\$ 641,682</b>
<b>Intersegment Sales</b>				
Grain Handling and Marketing	\$ 1,984	\$ 4,322	\$ 3,947	\$ 8,348
Agri-food Processing	-	32	35	169
	<b>\$ 1,984</b>	<b>\$ 4,354</b>	<b>3,982</b>	<b>\$ 8,517</b>
<b>EBITDA<sup>1</sup></b>				
Grain Handling and Marketing	\$ 27,585	\$ 12,148	\$ 38,012	\$ 17,376
Agri-products	1,335	(11)	(3,746)	(4,836)
Agri-food Processing	4,635	5,147	7,722	10,336
	33,555	17,284	41,988	22,876
Corporate Expenses	(7,173)	(6,245)	(12,810)	(11,803)
Provision for Pension Settlement	(5,000)	-	(5,000)	-
	<b>\$ 21,382</b>	<b>\$ 11,039</b>	<b>\$ 24,178</b>	<b>\$ 11,073</b>
<b>Amortization</b>				
Grain Handling and Marketing	\$ (3,374)	\$ (2,922)	\$ (6,549)	\$ (5,780)
Agri-products	(2,889)	(2,753)	(5,679)	(5,378)
Agri-food Processing	(1,450)	(1,285)	(2,936)	(2,570)
	<b>\$ (7,713)</b>	<b>\$ (6,960)</b>	<b>\$ (15,164)</b>	<b>\$ (13,728)</b>
<b>EBIT<sup>2</sup></b>				
Grain Handling and Marketing	\$ 24,211	\$ 9,226	\$ 31,463	\$ 11,596
Agri-products	(1,554)	(2,764)	(9,425)	(10,214)
Agri-food Processing	3,185	3,862	4,786	7,766
	25,842	10,324	26,824	9,148
Corporate Expenses	(7,173)	(6,245)	(12,810)	(11,803)
Provision for Pension Settlement	(5,000)	-	(5,000)	-
	<b>\$ 13,669</b>	<b>\$ 4,079</b>	<b>\$ 9,014</b>	<b>\$ (2,655)</b>

<sup>1</sup> EBITDA – earnings from continuing operations before interest, taxes and amortization.

<sup>2</sup> EBIT – earnings from continuing operations before interest and taxes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 (unaudited) - in thousands of Canadian dollars, except as noted

	Three Months Ended January 31		Six Months Ended January 31	
	2007	2006	2007	2006
Capital Expenditures				
Grain Handling and Marketing	\$ 2,812	\$ 2,178	\$ 9,646	\$ 3,846
Agri-products	975	1,490	2,058	3,104
Agri-food Processing	4,603	787	9,057	1,203
	\$ 8,390	\$ 4,455	\$ 20,761	\$ 8,153

	January 31		July 31
	2007	2006	2006
Assets			
Grain Handling and Marketing	\$ 344,406	\$ 303,005	\$ 305,458
Agri-products	264,199	261,514	173,573
Agri-food Processing	98,597	87,837	91,076
Corporate and other	202,830	147,355	203,923
	\$ 910,032	\$ 799,711	\$ 774,030

### 13. COMMITMENTS, CONTINGENCIES AND GUARANTEES

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

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

Under the agreement, the Company has agreed to reimburse this financial institution for loan losses in excess of a reserve (see the table below). Reimbursement amounts are payable to this financial institution at the end of December or 11 months following the due date of the producers' loan. When the Company remits payments for delinquent accounts to the financial institution with respect to this program, the delinquent account is assigned to the Company and the Company is then to collect the amounts payable by the customer. Subsequent collections of these delinquent accounts are to the benefit of the Company. The Company expects that loan losses will not differ significantly from those provided for in these financial statements.

	Producer Due Date - January 31	Company Reimbursement Date - December 31	January 31		July 31
			2007	2006	2006
			Producer Balance Outstanding	Producer Balance Outstanding	Producer Balance Outstanding
2005 loan program	2006	2006	\$ -	\$ 42,786	\$ 6,047
2006 loan program	2007	2007	28,332	21,249	182,315
2007 loan program	2008	2008	27,923	-	-
			\$ 56,255	\$ 64,035	\$ 188,362

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 (unaudited) - in thousands of Canadian dollars, except as noted

	January 31		July 31
	2007	2006	2006
Total Company provision, net of loan loss share	\$ 2,017	\$ 3,870	\$ 3,251
Portion due within one year	(1,732)	(3,403)	(969)
Long-term portion	\$ 285	\$ 467	\$ 2,282

- c) In 1987, a joint venture, which manufactured phosphate and nitrate fertilizers, closed two of its facilities. Asset retirement obligations exist regarding these closed facilities, which represent the Company's proportionate share of the best estimate by management of the joint venture of the legal obligations that would be incurred during the reclamation process. Reclamation involves the demolition of the manufacturing facilities and the reclamation of the phosphogypsum stacks. The long-term portion of these obligations, calculated on a net present value basis, is reflected as part of "other long-term liabilities" on the balance sheet. At January 31, 2007, the long-term portion was \$8.3 million (January 31, 2006 - \$10.2 million; July 31, 2006 - \$10.0 million). Uncertainty exists regarding the estimation of future decommissioning and reclamation costs. Actual obligations may differ from those recorded in these statements.

At January 31, 2007, the Company's proportionate share of the undiscounted cash flow required to settle the asset retirement obligations is approximately \$11.6 million, which is expected to be settled over the fiscal 2007 through fiscal 2014 period. The credit adjusted risk-free rates, at which the estimated cash flows have been discounted, range from 4% to 5.15%.

- d) The Commissioner of Competition has applied for an order from the federal Competition Tribunal to dissolve the joint venture between the Company and James Richardson International Limited. The two companies are contesting this application and will continue operating the joint venture, named Pacific Gateway Terminals Limited (PGTL), on a status quo basis during the ongoing proceedings. Subject to final regulatory approval, the Company is committed to the joint operation of PGTL for a period of 10 years. PGTL was established on July 11, 2005.
- e) In the normal course of business, the Company can, from time to time, commit to secure agri-products inventory for delivery at a future date. At January 31, 2007, the dollar value of this commitment was \$10.5 million (January 31, 2006 – nil; July 31, 2006 - \$0.5 million).
- f) Funding of the Saskatchewan Wheat Pool/Grain Services Union Pension Plan (see Note 10b).
- g) Contingent commitment for subscription receipts (see Note 14).

### 14. OFFER FOR AGRICORE UNITED

In January 2007 the Company extended its November 24, 2006 offers for all of the outstanding Limited Voting Common Shares and Series A Convertible Preferred Shares of United Grain Growers Limited, carrying on business as Agricore United (Agricore). The offers are now open until March 7, 2007, unless further extended or withdrawn.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007 (unaudited) - in thousands of Canadian dollars, except as noted

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Under the extended offers, each Limited Voting Common Share of Agricore would be exchanged for \$11.33 in cash, 1.3601 common shares of Saskatchewan Wheat Pool Inc., or any combination thereof, in each case subject to pro ration. Pro rations are subject to the maximum cash available of \$180.8 million, or \$3.00 per Agricore Common Share if all shareholders elect cash, and a maximum of 60.3 million common shares of Saskatchewan Wheat Pool Inc., or an exchange ratio of 1.00 common shares of the Company per Agricore Common Share if all Agricore Common Shareholders elect to receive common shares. Each of Agricore's outstanding Series A Convertible Preferred Share would be acquired for \$24.00 in cash, plus any accrued and unpaid dividends to the date the Series A Preferred Shares are taken up under the offer.

The funding for the cash component of the common share offer will come from two subscription receipt offerings, comprised of a public market bought deal and a private placement, together generating gross proceeds of approximately \$225 million. Proceeds not used in the offers will be used for general corporate purposes. Both offerings closed on February 15, 2007.

Under the public offering, the Company issued 12,350,000 subscription receipts at a price of \$8.10 per subscription receipt for gross proceeds of approximately \$100 million. The Company granted an option to the underwriter's of the public offering, to purchase up to an additional 1,852,500 subscription receipts at the issue price of \$8.10.

In addition to the public offering, the Company issued 15,753,086 subscription receipts at a price of \$7.93 on a private placement basis to a shareholder for gross proceeds of approximately \$125 million.

The gross proceeds from the two subscription receipt offerings are being held in escrow pending the initial takeup by the Company of the Agricore Limited Voting Common Shares. The gross proceeds will be returned to the subscription receipt holders if the Company terminates its offer for Agricore or if the initial take-up of the Agricore shares does not occur before April 30, 2007.