



**Saskatchewan Wheat Pool Inc.**

**For Immediate Release**

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**Strong Performance in Grain Handling Boosts the Pool's First Quarter**

Saskatchewan Wheat Pool Inc. strengthened its operating earnings in the first quarter of fiscal 2007, giving the Company two straight years of first quarter improvements and setting the stage for robust operating performance in the year ahead. Increased grain volumes and solid gross margins from the Grain Handling and Marketing Segment drove results.

**FIRST QUARTER HIGHLIGHTS**

- The Pool utilized its strong market position in CWB grains, its excellent transportation and logistics capabilities and its merchandizing expertise to increase wheat, barley and oilseed shipments during the quarter.
- The Pool shipped 19% more grains and oilseeds this quarter than in the same period a year ago and doubled the EBITDA contribution from its Grain Handling and Marketing segment to \$10.4 million.
- The Pool's consolidated sales and other operating revenues for the first quarter of fiscal 2007 rose 25% to \$341.3 million compared to \$273.9 million in last year's first quarter.
- Interest costs of \$2.8 million for the first three months were less than half the \$6.0 million in the same period last year reflecting the success of management's recapitalization efforts over the past several years.
- The Pool's October 31, 2006, balance sheet continued to strengthen with total debt-to-equity of 22:78 and total net debt-to-equity of 11:89.
- The Company cut its seasonal net loss by 33% to \$5.1 million from a net loss of \$7.7 million in the comparable period last year.
- The Pool's net earnings in the 12-months ending October 31, 2006, were \$19.3 million, 77% ahead of the \$10.9 million earned in the preceding 12-month period. The above 12-month net earnings for both periods are adjusted to exclude one-time items.

Subsequent to quarter-end, the Pool announced a proposed merger with Agricore United designed to create a strong Canadian agri-business that will deliver estimated net synergies of approximately \$60 million annually, reduce the risk profile of the new company, and substantially improve value for all shareholders.

“The combined earnings of these two companies illustrate the value we can bring to shareholders, to customers and to the Canadian agri-business industry if we work together. The Pool’s focus on asset utilization, efficiencies, and balance sheet strategies is delivering the results that our shareholders have come to expect. By combining our operating model with Agricore United’s, we believe that we can create additional efficiencies and value for all industry stakeholders, including our farm customers,” said President and CEO Mayo Schmidt.

Fundamentals in the Canadian grain industry are improving. Strengthening commodity prices, together with excellent quality that will drive grains and oilseed exports, and good soil moisture across most of the Prairies, signal optimism for fiscal 2007. Management believes that the time is right to be proactive and take the necessary next steps in securing the future of western Canadian agriculture.

“Over the past number of weeks, we have met with numerous Pool and Agricore shareholders to discuss this combination. We have been extremely encouraged by the feedback we have received and the confidence that has been expressed about the financial and strategic rationale underlying this proposal,” added Schmidt. “It is our responsibility as leaders in this industry to create a competitive environment and efficient infrastructure so that our farmers not only reap the benefits of a strong agricultural economy here at home, but can compete effectively in world markets as demand grows for their commodities. It is this commitment that we believe will deliver long-term value to all stakeholders,” said Schmidt.



**Saskatchewan Wheat Pool Inc.**

**FIRST QUARTER REPORT – OCTOBER 31, 2006  
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 December 7, 2006. Management prepared this discussion to help readers interpret the Pool's financial results for the first quarter ended October 31, 2006, compared to the previous year's first quarter. We have provided information to assist you in becoming familiar with the agri-business industry and markets in which we operate. We have also included 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).

The Pool's management's discussion and analysis, unaudited consolidated financial statements and notes 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 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, the period of this report. 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 first quarter of fiscal 2007 were \$341.3 million, up \$67.4 million from the \$273.9 million generated in the first quarter last year. Stronger volumes through the Pool's Grain Handling and Marketing segment together with higher quarterly sales from its Agri-food Processing segment offset a decline in Agri-product sales.

Prior to corporate expenses, the Pool's three business segments generated quarterly earnings from continuing operations before interest, taxes and amortization (EBITDA) of \$8.4 million, a 50.8% improvement over the first three months of last year, driven by a strong performance in the Company's core grain operations. Corporate costs remained in line with the previous year's quarter at \$5.6 million.

Consolidated EBITDA was \$2.8 million for the first three months of fiscal 2007, up from \$34,000 for the same period a year ago. The strong volume and margin performance from the Grain Handling and Marketing segment more than offset somewhat lower contributions from the Agri-products and Agri-food Processing segments.

Amortization for the three months ended October 31, 2006, was \$7.5 million up from \$6.8 million in last year's first quarter.

EBIT (earnings from continuing operations before interest and taxes) improved to a loss of \$4.7 million for the quarter from a loss of \$6.7 million in the same period last year.

Quarterly interest expense was \$2.8 million, less than half of the \$6.0 million expensed in last year's first quarter. The decline reflects lower debt levels and more favourable interest rates on the Pool's long-term debt.

The Pool recorded a corporate tax recovery of \$2.3 million in the first quarter of fiscal 2007 and a \$5.0 million recovery in last year's first quarter. The smaller recovery this year primarily reflects the Company's stronger financial performance in the three months ended October 31, 2006.

The Company improved its operating results and reduced its seasonal net loss for the first quarter by 32.9%. The net loss in the first three months of fiscal 2007 was \$5.1 million compared to a net loss of \$7.7 million in the same period last year. The loss per share was \$0.06 per share for the quarter, on a weighted average number of shares of 90.3 million, versus a loss of \$0.09 per share last year on a weighted average number of shares of 81.8 million in the first quarter.

<b>Reconciliation of Net Loss to EBITDA</b>		
<b>For the three months ended</b>		
(in thousands)	<b>October 31, 2006</b>	<b>October 31, 2005</b>
<b>Net Loss</b>	\$ (5,134)	\$ (7,654)
Recovery of corporate taxes	(2,272)	(5,031)
Interest expenses	2,751	5,951
<b>EBIT</b>	(4,655)	(6,734)
Amortization	7,451	6,768
<b>EBITDA</b>	<b>\$ 2,796</b>	<b>\$ 34</b>

## **4. SEGMENT RESULTS**

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

Producer deliveries into the Pool's primary elevator network rose 10.9% during the quarter to 2.1 mmt, up from 1.9 mmt in the comparable period last year. An earlier harvest, coupled with higher commodity prices encouraged an 11.8% increase in producer deliveries across the Prairies in the first three months this year.

The Pool increased its market share in both Saskatchewan and Alberta quarter-over-quarter. Its market share in Manitoba was on par with the previous year's quarter. Deliveries into Manitoba facilities for the industry were significantly higher than the previous year's quarter due to a return to average production levels in that region. The Pool's consolidated market share across the Prairies was 23.0% compared to 23.5% in the prior year's first quarter due to the higher proportion of deliveries in Manitoba.

Primary elevator shipments rose 18.5% in the first three months of fiscal 2007 compared to the previous year's period. The Pool shipped 2.1 mmt in the quarter, up from 1.8 mmt last year. Both the CWB and non-Board export programs of the Pool were strong during the quarter with the Company achieving improvements of 23.2% and 12.2% respectively. Approximately 59.2% of the Pool's shipments were CWB grains compared to 57.0% in the first quarter last year.

The Pool's port terminal volumes, including its share of volumes through Prince Rupert Grain Ltd., increased 8.2% to 1.4 mmt, up from 1.3 mmt in the prior year's first quarter. Industry port terminal receipts rose 11.6% period-over-period. The Pool's Vancouver export facility at its joint venture, Pacific Gateway Terminals Ltd., was shut down for five weeks during the quarter for scheduled maintenance. As a result, wholly owned terminal receipts were 5.6% lower than in the first quarter of fiscal 2006. During this year's first quarter, shipments continued to flow through the Pool's Vancouver joint venture partner, through the port of Thunder Bay and through affiliate Prince Rupert Grain. Wholly owned port terminal volumes were 1.1 mmt in the 2007 first quarter compared to 1.2 mmt in the prior year period.

<b>Grain Handling and Marketing Segment Volumes For the three months ended</b>			
('000s metric tonnes)	October 31, 2006	October 31, 2005	% Change
Primary elevator receipts	2,131	1,922	10.9%
Primary elevator shipments			
CWB grains	1,231	999	23.2%
Non-Board grains and oilseeds	847	755	12.2%
Total primary elevator shipments	2,078	1,754	18.5%
Port terminal receipts			
Vancouver	620	830	(25.3%)
Thunder Bay	517	374	38.2%
	1,137	1,204	(5.6%)
Share of PRG	305	129	236.4%
Total port terminal receipts	1,442	1,333	8.2%

The Pool achieved gross margins of \$18.75 per tonne in the first three months of fiscal 2007 (excludes contributions from PRG) mainly due to improved grain quality that allowed the Company to increase exports and blending opportunities. This compares to \$18.63 per tonne in the same period last year.

Segment EBITDA was \$10.4 million, double the \$5.2 million generated in the first quarter last year. EBIT for the quarter was \$7.3 million up from \$2.4 million in last year's first quarter. Higher exports of CWB grains and canola contributed to the increase in EBITDA. Expenses were up slightly due to salary increases and costs related to higher grain volumes.

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

Retail sales of agri-products are seasonal and directly correlate 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, including 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 seasonally intense spring selling period.

Agri-product segment sales were \$48.9 million during the first quarter of fiscal 2007 compared to \$54.5 million in the same quarter last year. Sales through the Pool's retail operations were 16.1% behind last year's first quarter mainly because of lower fertilizer and equipment sales, partially offset by higher crop protection product sales. The Pool's proportionate share of WCFL's sales was up 1.5%.

Crop protection products sales were strong and improved 10.0% over last year's first quarter. An early harvest along with good weather and moisture conditions across the majority of the Prairies allowed for strong post-harvest applications. In addition, a shortage of less expensive glyphosate products resulted in stronger sales of higher-margin products.

The major factors affecting fertilizer sales through the Pool's retail operations in the first three months of fiscal 2007 were lower fertilizer prices and volumes. Last year, the impact of Hurricane Katrina caused an unusual rise in fertilizer prices at the end of the summer and farmers bought some of their product early to avoid the potential for additional price increases. In the first three months of this year, there has been no significant event to push natural gas prices up. As a result, producers have not felt the same sense of urgency to buy fertilizer in the fall to avoid anticipated price increases.

A breakdown of first quarter consolidated sales and other operating revenues by product line follows:

<b>Agri-product Segment Sales and Other Operating Revenue</b>			
<b>For the three months ended</b>			
(in thousands)	<b>October 31,</b>	<b>October 31,</b>	<b>%</b>
	<b>2006</b>	<b>2005</b>	<b>Change</b>
Fertilizer products	\$ 33,240	\$ 38,067	(12.7)%
Crop protection products	10,367	9,426	10.0%
Other operating revenue	5,292	7,014	(24.5)%
<b>Total</b>	<b>\$ 48,899</b>	<b>\$ 54,507</b>	<b>(10.3)%</b>

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

EBITDA for the segment was a loss of \$5.1 million during the quarter compared to a loss of \$4.8 million in the first three months of fiscal 2006. The Pool's retail operations lost \$6.7 million in EBITDA versus \$5.3 million in last year's first quarter. Stronger collections of outstanding agri-product credit accounts helped offset margin pressures created by lower fertilizer sales volumes and lower supplier rebates. WCFL's contribution to the segment's EBITDA was \$1.6 million, up from \$0.5 million last year.

EBIT for the segment was a loss of \$7.9 million compared to last year's first quarter loss of \$7.5 million.

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

Sales in the Agri-food Processing segment for the quarter were \$36.3 million, up from \$29.3 million in the first three months of fiscal 2006. Can-Oat Milling's sales increased 20.2% quarter-over-quarter reflecting a higher proportion of finished product sales in its product mix. Prairie Malt's sales were up 35.6% over the prior year's first quarter due to higher volumes based on the timing of customer shipments and higher sales prices.

The segment EBITDA was \$3.1 million for the first quarter, down from \$5.2 million for the same period last year. The impact from the rising cost of oats on the mark-to-market of Can-Oat's oat position, lower processing yields due to some quality issues with this year's oat crop, and a drop in rates for foreign exchange contracts lowered margins in Can-Oat. At Prairie Malt, margins and earnings were impacted by excess industry capacity and a strong

Canadian dollar. EBIT for the Agri-food segment for the quarter was \$1.6 million compared to \$3.9 million in last year's first quarter.

#### **4.4 Outlook**

Canadian grain exports are currently estimated to remain in line with fiscal 2006 levels with slightly higher CWB exports offsetting a reduction in non-Board commodities. Management believes there may be an opportunity for the CWB to exceed its initial estimates by one to two million tonnes given the higher quality of this year's wheat and barley crop combined with strong global demand.

The world supply of grains is tight this year because total world carry-in stocks and crop yields are low in major grain producing nations like the U.S. and Australia. Australia's drought will significantly limit its ability to participate in the fiscal 2007 export market providing an opportunity for Canada and other grain and oilseed suppliers. Farmers are taking advantage of the higher commodity prices this year and in response, have increased their deliveries into the system.

In the Agri-products segment, spring remains the most important sales and earnings period and the Company's success will depend on seeding decisions, soil moisture content and growing conditions, especially in May and June. Statistics Canada's November 1, 2006, drought watch survey shows adequate water supplies across the Prairie Provinces, with the exception of southern Saskatchewan and southwestern Manitoba along the U.S. border. Northeastern Saskatchewan has excess moisture conditions from heavy rains and early snowfall during the fall season. Good drying conditions will be needed to support this year's spring planting in that region.

Competitive pricing throughout the agri-products market will continue this fiscal year. Fertilizer prices this fall are below those of the previous year because of lower prices for natural gas, a key component in nitrogen fertilizer. These lower prices should help minimize the risk of price depreciation on inventories currently held in the Pool's system.

With the functionality and heart healthy attributes of oat products, consumer demand continues to remain strong for whole grain, organic and convenient consumer food products. Large retailers are fuelling market demand and consumption as they introduce new organic product lines. Can-Oat is well positioned to benefit from this strong growth in the consumption of oat ingredients. Its Manitoba plant expansion project is scheduled for completion in February 2007 providing the capacity necessary to meet the growing needs of its current customers and expanding markets.

The drivers for Can-Oat this year will be foreign exchange rates, oat prices, and the quality of the oat crop. By entering into a combination of cash and futures contracts, Can-Oat minimizes its exposure to fluctuations in the cost of raw oats. This year, the quality of oats and barley will require Can-Oat to employ flexible sourcing strategies and alter its manufacturing processes in order to maintain yields, production output and manufacturing costs. Can-Oat expects to process more than 375,000 metric tonnes annually.

Management is optimistic about the potential for solid performance from its core operations in fiscal 2007 given the higher quality of this year's crop and robust export movement to date. Ample moisture throughout most of the Prairies is positive for spring fertilizer demand and for the Pool's retail network, particularly during the heavy fourth quarter selling season. Can-Oat too, is positioning itself to take advantage of increased demand for its products with the expansion of its Portage la Prairie plant which is on schedule to be completed early in the calendar new year.

## Regulatory Environment

The federal government is currently examining changes to the CWB that could potentially remove its monopoly sales position on wheat, durum and barley. On October 31, 2006, Agriculture Minister Chuck Strahl announced that he would be holding a producer plebiscite on the CWB's marketing of barley. It is anticipated that the plebiscite will be held sometime in early 2007. Depending on the results of the plebiscite, marketing changes to barley could be introduced as early as August 2007. The government has not made any decision on the marketing choice for wheat and durum.

## 5. LIQUIDITY AND CAPITAL RESOURCES

<b>Key Financial Information</b>			
(in thousands, except ratios)	<b>As at October 31, 2006</b>	<b>As at October 31, 2005</b>	<b>As at July 31, 2006</b>
Current ratio (current assets/current liabilities)	1.94	1.90	2.28
Total debt-to-equity (total debt/(total debt + equity))	22:78	32:68	24:76
Long-term debt-to-equity (long-term debt/(long-term debt + equity))	19:81	29:71	19:81
Current assets	\$ 428,590	\$ 401,470	\$ 390,418
Current liabilities	220,586	211,332	171,033
Working capital	\$ 208,004	\$ 190,138	\$ 219,385
Total debt	\$ 128,583	\$ 178,120	\$ 143,010
Long-term debt	\$ 109,891	\$ 154,357	\$ 110,807
Shareholders equity	\$ 456,300	\$ 373,603	\$ 461,430

The improvement in the Pool's financial position and ratios reflects the debt refinancing initiatives the Company completed during fiscal 2006. Please refer to Section 5.2 for a description of those activities and the positive impact on our future debt serviceability costs.

### 5.1 Cash Flow Prior to Working Capital Changes

The Pool no longer shows the category, cash flow from continuing operations, on its financial statements. Its equivalent, cash flow prior to working capital changes, is reconciled below.

<b>Cash Flow Activities</b>			
(in thousands)	<b>For the three months ended</b>		<b>For the twelve months ended</b>
	<b>October 31, 2006</b>	<b>October 31, 2005</b>	<b>July 31, 2006</b>
<b>Cash flow prior to working capital changes</b>	\$ 748	\$ (4,563)	\$ 53,749
Changes in non-cash working capital			
Accounts receivable	(31,090)	(27,706)	15
Inventories	(39,645)	(32,187)	(25,509)
Accounts payable	62,980	61,670	(2,429)
Prepaid expenses and deposits	1,874	(17,584)	7,663
<b>Changes in non-cash operating working capital – continuing operations</b>	(5,881)	(15,807)	(20,260)
<b>Cash from discontinued operations</b>	-	6,731	17,509
<b>Cash (used in) from operating activities</b>	\$ (5,133)	\$ (13,639)	\$ 50,998

<b>Loss from continuing operations</b>	\$ (5,134)	\$ (7,654)	\$ (6,844)
Adjustments for items not involving cash and/or continuing operations	5,882	3,091	60,593
Cash flow prior to working capital changes	748	(4,563)	53,749
Capital expenditures	(12,371)	(3,698)	(29,985)
<b>Free Cash Flow</b>	<b>\$ (11,623)</b>	<b>\$ (8,261)</b>	<b>\$ 23,764</b>

During the first quarter, the Pool generated cash flow prior to working capital changes of \$0.7 million, an increase of \$5.3 million quarter-over-quarter. In the first quarter last year, the Pool's use of cash was \$4.6 million. The improvement reflects higher EBITDA and lower cash interest expenses. 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>Selected Working Capital Items</b>		
	<b>As at October 31, 2006</b>	<b>As at October 31, 2005</b>	<b>As at July 31, 2006</b>
Accounts receivable	\$ 154,007	\$ 152,147	\$ 123,176
Inventories	182,570	149,603	142,925
Prepaid expenses and deposits	11,200	38,321	13,074
Accounts payable and accrued liabilities	(193,972)	(181,758)	(129,940)
<b>Total selected working capital items</b>	<b>\$ 153,805</b>	<b>\$ 158,313</b>	<b>\$ 149,235</b>

Inventory levels were \$33.0 million higher than at the end of October last year primarily because of an increase in non-Board grain prices and higher crop protection product inventory. Even though the Pool had strong sales this fall, product remained from the previous fiscal year that was originally targeted for spring application to supply the northeastern part of Saskatchewan, which was impacted by excessive moisture. This product will be sold in the fourth quarter.

Prepaid expenses and deposits were \$27.1 million lower than at the end of the first quarter of 2006. Last year, the Pool had a \$10 million security deposit with the Canadian Grain Commission (CGC), which has since been replaced with a letter of credit. The remaining variance primarily relates to prepaid deposits made during the first quarter last year.

## 5.2 Financing Activities

Long-term debt was \$102.0 million at October 31, 2006, down from \$148.5 million at October 31, 2005. The decrease was mostly due to the refinancing of \$150 million of 12% Senior Subordinated Notes with \$100 million of Senior Unsecured Notes and equity in April and May of 2006.

### 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 – Positive CreditWatch
Standard & Poor's	B+/Watch Pos	BB/Watch Pos	B/Watch Pos	Positive

\* NR - not rated

On November 7, 2006, the Dominion Bond Rating Service (DBRS) placed the Company's ratings under review with positive implications. The next day Standard & Poor's placed the Company on CreditWatch with positive implications. These actions followed the Pool's announcement of its intention to make a formal offer for Agricore United's Outstanding Limited Voting Common Shares, Series A Convertible Preferred Shares, and Unsecured Subordinated Convertible Debentures.

### **5.3 Investing Activities**

#### ***Capital Expenditures***

Capital expenditures during the first quarter were \$12.4 million, up from \$3.7 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 in February 2007.

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

## **6. CORPORATE DEVELOPMENTS**

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

On November 7, 2006, the Pool announced it would make an offer for all of Agricore United's Outstanding Limited Voting Common Shares, Series A Convertible Preferred Shares, and Unsecured Subordinated Convertible Debentures. Under the terms of the offer, each of Agricore's Limited Voting Common Shares will be exchanged for 1.35 common shares of the Pool. Each outstanding \$100 principal amount of Agricore's 9% Convertible Unsecured Subordinated Debentures due November 30, 2007, will receive 18 common shares of the Pool plus 0.18 common shares of the Pool per \$1.00 of accrued and unpaid interest. Agricore's Series A Convertible Preferred Shares will be acquired by the Pool for \$24.00 in cash plus any accrued and unpaid dividends. On November 9, 2006, the Board of Directors of Agricore United appointed a Special Committee of independent directors to evaluate the Pool's offer. The offer is subject to conditions set out in the circular mailed to Agricore shareholders on November 28, 2006.

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.

### **6.2 Saskatchewan Wheat Pool/Grain Services Union Pension Plan**

The Company contributes to the Saskatchewan Wheat Pool/Grain Services Union Pension Plan. This is a closed negotiated cost plan providing defined benefits in respect of employees. Since the cost is negotiated, the Company accounts for this Plan as a defined contribution plan; however, it must be valued for regulatory purposes as a defined benefit plan.

On October 26, 2006, the Office of the Superintendent of Financial Institutions (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 Grains Services Union (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 instalments relating to the solvency deficiency of approximately \$2.2 million as they fall due thereafter. The Company will seek judicial review of the Direction and an order to terminate the Plan in the Federal Court of Canada based on the position stated above.

Note 10b in the notes to the consolidated financial statements dated October 31, 2006, provides additional information with respect to the status of this plan.

## **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 (loss) 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 income (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 & 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 Corporation 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 and under the heading "Risk Management" in the Management's Discussion & 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 & 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 Corporation. 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-product 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-product 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.

## ANNUAL MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis relating to the first quarter ended October 31, 2006, 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

December 7, 2006

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

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

(in thousands)

AS AT	October 31, 2006	October 31, 2005	July 31, 2006
	(unaudited)	(unaudited)	(audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	\$ 9,777	\$ 19,753	\$ 5,071
Cash in trust (Note 13b)	4,894	4,512	508
Short-term investments (Note 3)	63,180	32,000	104,892
Accounts receivable	154,007	152,147	123,176
Inventories	182,570	149,603	142,925
Prepaid expenses and deposits	11,200	38,321	13,074
Future income taxes	2,962	5,134	772
	428,590	401,470	390,418
<b>Investments</b>	4,944	5,811	4,904
<b>Property, Plant and Equipment</b>	261,100	249,056	255,552
<b>Other Long-Term Assets (Note 4)</b>	20,727	14,885	20,605
<b>Future Income Taxes</b>	102,551	102,670	102,551
	\$ 817,912	\$ 773,892	\$ 774,030
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Bank indebtedness (Note 5)	\$ 398	\$ 2,847	\$ 13,238
Short-term borrowings (Note 6)	-	1,146	-
Members' demand loans	18,294	19,770	18,965
Accounts payable and accrued liabilities	193,972	181,758	129,940
Long-term debt due within one year (Note 7)	7,922	5,811	8,890
	220,586	211,332	171,033
<b>Long-Term Debt (Note 7)</b>	101,969	148,546	101,917
<b>Other Long-Term Liabilities</b>	37,182	37,035	37,616
<b>Future Income Taxes</b>	1,875	3,376	2,034
	361,612	400,289	312,600
<b>Shareholders' Equity</b>			
Share capital (Note 8)	502,760	439,485	502,760
Contributed surplus	312	259	308
Retained earnings (deficit)	(46,772)	(66,141)	(41,638)
	456,300	373,603	461,430
	\$ 817,912	\$ 773,892	\$ 774,030

Commitments, contingencies and guarantees (Note 13)

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

<b>FOR THE PERIODS ENDED</b>	<b>Three Months Ended October 31, 2006 (unaudited)</b>	<b>Three Months Ended October 31, 2005 (unaudited)</b>
<b>Sales and Other Operating Revenues</b>	\$ 341,262	\$ 273,957
<b>Cost of Sales and Expenses</b>		
Cost of sales and operating expenses	325,206	261,095
Selling and administrative expenses	13,260	12,828
Amortization	7,451	6,768
	<u>345,917</u>	<u>280,691</u>
<b>Loss Before Interest and Taxes</b>	(4,655)	(6,734)
Interest expense (Note 11)	2,751	5,951
<b>Loss Before Corporate Taxes</b>	(7,406)	(12,685)
Recovery of corporate taxes	(2,272)	(5,031)
<b>Net Loss</b>	(5,134)	(7,654)
<b>Retained Earnings (Deficit), Beginning of Period</b>	(41,638)	(58,487)
<b>Retained Earnings (Deficit), End of Period</b>	<u>\$ (46,772)</u>	<u>\$ (66,141)</u>
<b>Basic and Diluted Loss Per Share (Note 8b)</b>	<u>\$ (0.06)</u>	<u>\$ (0.09)</u>

**SASKATCHEWAN WHEAT POOL INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

<b>FOR THE PERIODS ENDED</b>	<b>Three Months Ended October 31, 2006</b>	<b>Three Months Ended October 31, 2005</b>
	(unaudited)	(unaudited)
<b>Cash From (Used in) Operating Activities</b>		
Loss from continuing operations	\$ (5,134)	\$ (7,654)
Adjustments for items not involving cash and/or continuing operations		
Amortization	7,451	6,768
Future income tax provision	(2,349)	(5,239)
Post employment benefits (Note 10a)	231	458
Non-cash interest expense (Note 11)	491	987
Gain on sale of property, plant and equipment	(53)	(126)
Other items	111	243
Adjustments for items not involving cash and/or continuing operations	5,882	3,091
Changes in non-cash working capital items		
Accounts receivable	(31,090)	(27,706)
Inventories	(39,645)	(32,187)
Accounts payable	62,980	61,670
Prepaid expenses and deposits	1,874	(17,584)
Changes in non-cash working capital - continuing operations	(5,881)	(15,807)
Cash used in operating activities - continuing operations	(5,133)	(20,370)
Cash from discontinued operations	-	6,731
Cash used in operating activities	(5,133)	(13,639)
<b>Cash From (Used in) Financing Activities</b>		
Repayment of long-term debt	(916)	(631)
Proceeds from short-term borrowings	-	754
Repayment of other long-term liabilities, net	(39)	(167)
Repayment of members' demand loans	(671)	(1,706)
Other items	(52)	(11)
Cash used in financing activities	(1,678)	(1,761)
<b>Cash From (Used in) Investing Activities</b>		
Property, plant and equipment expenditures	(12,371)	(3,698)
Proceeds on sale of property, plant and equipment	99	112
Increase in cash in trust	(4,386)	(3,741)
Increase in investments	-	(389)
Increase in other long-term assets	(697)	(1,256)
Cash used in investing activities	(17,355)	(8,972)
<b>Decrease in Cash and Cash Equivalents</b>	(24,166)	(24,372)
<b>Cash and Cash Equivalents, Beginning of Period</b>	96,725	73,278
<b>Cash and Cash Equivalents, End of Period</b>	\$ 72,559	\$ 48,906
Cash and cash equivalents consist of:		
Cash	\$ 9,777	\$ 19,753
Short-term investments	63,180	32,000
Bank indebtedness	(398)	(2,847)
	\$ 72,559	\$ 48,906
Supplemental disclosure of cash paid during the period from continuing operations:		
Interest paid	\$ 5,031	\$ 4,895
Income taxes paid, net	\$ -	\$ 420

## SASKATCHEWAN WHEAT POOL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2006 (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 valued-added products associated with oats and malt barley. Wholly owned subsidiary Can-Oat Milling maintains plants in Portage la Prairie, Manitoba, Martensville, Saskatchewan and Barrhead, Alberta, with the majority of its products exported. At its plant located in Biggar, Saskatchewan, affiliate Prairie Malt Limited processes malt barley into malt for domestic and export markets.

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

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

### 2. 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 October 31, 2006, PRG has approximately \$305 million in loans due to a third party. The loans mature in 2015 (\$191 million) and 2035 (\$114 million) and are secured by the terminal without recourse to the consortium members.

**3. SHORT-TERM INVESTMENTS**

	October 31		July 31
	2006	2005	2006
Saskatchewan Wheat Pool Inc.	\$ 58,670	\$ 32,000	\$ 77,955
Subsidiaries and proportionate share of joint ventures	4,510	-	26,937
	\$ 63,180	\$ 32,000	\$ 104,892

**4. OTHER LONG-TERM ASSETS**

	October 31, 2006		October 31, 2005		July 31, 2006	
		Accumulated Amortization		Accumulated Amortization		Accumulated Amortization
Deferred financing costs	\$ 7,533	\$ 2,698	\$ 4,659	\$ 906	\$ 7,533	\$ 2,207
Deferred pension assets	9,208	-	4,979	-	9,395	-
Other	8,036	1,352	6,819	666	7,093	1,209
	24,777	\$ 4,050	16,457	\$ 1,572	24,021	\$ 3,416
Accumulated amortization	(4,050)		(1,572)		(3,416)	
	\$ 20,727		\$ 14,885		\$ 20,605	

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

Amortization of deferred financing costs of \$0.5 million (2005 – \$0.4 million) is included in interest expense. Amortization of other assets of \$0.1 million (2005 - \$0.1 million) is included in amortization expense.

**5. BANK INDEBTEDNESS**

	October 31		July 31
	2006	2005	2006
Saskatchewan Wheat Pool Inc.	\$ -	\$ -	\$ 13,238
Subsidiaries and proportionate share of joint ventures	398	2,847	-
	\$ 398	\$ 2,847	\$ 13,238

## 6. SHORT-TERM BORROWINGS

	October 31		July 31
	2006	2005	2006
Saskatchewan Wheat Pool Inc.	\$ -	\$ -	\$ -
Subsidiaries and proportionate share of joint ventures	-	1,146	-
	\$ -	\$ 1,146	\$ -

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

At October 31, 2006, availability under the asset backed revolving loan facility was \$79.5 million (October 31, 2005 - \$49.0 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

	October 31		July 31
	2006	2005	2006
Senior Unsecured Notes (a)	\$ 100,000	\$ -	\$ 100,000
Senior Subordinated Notes (b)	-	140,528	-
Members' term loans (c)	5,091	4,922	5,276
Sub-total	105,091	145,450	105,276
Subsidiaries' and proportionate share of joint ventures' secured debt (c)	4,800	8,907	5,531
Total consolidated long-term debt	109,891	154,357	110,807
Less portion due within one year:			
Members' term loans	3,122	1,704	3,359
Subsidiaries' and proportionate share of joint ventures' debt	4,800	4,107	5,531
Long-term debt due within one year	7,922	5,811	8,890
Total long-term debt	\$ 101,969	\$ 148,546	\$ 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 2007. The debts are secured by certain assets and some are subject to meeting certain covenants.
- The Company does not guarantee nor does it have responsibility for the repayment of the subsidiaries' or joint ventures' debts.

## 8. SHARE CAPITAL

### a) COMMON VOTING SHARES

#### Authorized

Unlimited Common Voting Shares

The following table summarizes the Common Voting Shares for the three month periods ended October 31, 2006 and October 31, 2005.

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

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

#### Authorized

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 October 31	
	2006	2005
Numerator – net loss	\$ (5,134)	\$ (7,654)
Denominator for basic and diluted per share amounts:		
Weighted average number of shares outstanding	90,251	81,834
Basic and diluted loss per share	\$ (0.06)	\$ (0.09)

There is no dilutive effect from the exercise of options related to stock option plans.

## 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 October 31, 2006, the total DSUs held by directors was 97,867 (2005 – 26,181). The Company recorded compensation costs related to outstanding DSUs of \$0.1 million for the three month period ended October 31, 2006 (2005 - \$0.1 million).

### 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 October 31, 2006, the total RSUs granted was 224,637. The Company recorded compensation costs related to outstanding RSUs of \$0.1 million for the three month period ended October 31, 2006 (2005 - \$0.1 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 October 31, 2006, the total PSUs granted to designated executives was 673,913. The Company recorded compensation costs related to outstanding PSUs of \$0.4 million for the three month period ended October 31, 2006 (2005 - \$0.4 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 three month periods ended October 31, 2006 and October 31, 2005, a negligible amount was expensed as stock-based compensation related to stock options.

Of the 85,199 outstanding stock options at October 31, 2006, 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 October 31, 2006, 10% have an exercise price of \$6.50 or less; the remainder have an exercise price at, or greater than, \$31. At October 31, 2006, the shares closed at \$7.19.

## 10. POST EMPLOYMENT BENEFITS

- a) The Company's net benefit cost related to defined benefit pension plans and retiring allowances is \$0.2 million for the three months ended October 31, 2006 (2005 - \$0.5 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 three months ended October 31, 2006 is \$1.0 million (2005 - \$0.9 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, 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.

At the time of the preparation of the fiscal 2005 second quarter report, the Company identified an estimated potential deficit of \$1.9 million on a going concern basis and a solvency deficiency of \$28 million on wind-up as at December 31, 2004. The Company and the GSU met to discuss how to address the solvency deficiency, but were unable to reach any agreement.

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 instalments 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 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 instalments relating to the solvency deficiency of approximately \$2.2 million as they fall due thereafter. The Company will seek 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 require Plan terms to provide for funding in accordance with prescribed test and standards for solvency) the Plan should be terminated.

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 \$15 million. Accordingly, in the fourth quarter of fiscal 2006, a charge of \$15 million was recorded to reflect management's best estimate of the minimum cost to the Company to resolve the dispute. There is a risk that the Company may ultimately be held responsible for an increase in contributions beyond the \$15 million provided for.

## 11. INTEREST EXPENSE

	<b>Three Months Ended</b>	
	<b>October 31</b>	
	<b>2006</b>	<b>2005</b>
Saskatchewan Wheat Pool Inc.		
Interest	\$ 2,339	\$ 5,022
Non-cash accretion	-	599
Amortization of deferred financing costs	491	388
Subsidiaries' and proportionate share of joint ventures' interest	(79)	(58)
	<b>\$ 2,751</b>	<b>\$ 5,951</b>

**12. SEGMENTED INFORMATION**

	<b>Three Months Ended October 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Sales</b>		
Grain Handling and Marketing	\$ 258,024	\$ 194,174
Agri-products	48,899	54,507
Agri-food Processing	36,337	29,439
	343,260	278,120
Less: Intersegment Sales	1,998	4,163
	\$ 341,262	\$ 273,957
<b>Intersegment Sales</b>		
Grain Handling and Marketing	\$ 1,963	\$ 4,026
Agri-food Processing	35	137
	\$ 1,998	\$ 4,163
<b>EBITDA<sup>1</sup></b>		
Grain Handling and Marketing	\$ 10,427	\$ 5,228
Agri-products	(5,081)	(4,825)
Agri-food Processing	3,087	5,189
	8,433	5,592
Corporate Expenses	(5,637)	(5,558)
	\$ 2,796	\$ 34
<b>Amortization</b>		
Grain Handling and Marketing	\$ (3,175)	\$ (2,858)
Agri-products	(2,790)	(2,625)
Agri-food Processing	(1,486)	(1,285)
	\$ (7,451)	\$ (6,768)
<b>EBIT<sup>2</sup></b>		
Grain Handling and Marketing	\$ 7,252	\$ 2,370
Agri-products	(7,871)	(7,450)
Agri-food Processing	1,601	3,904
	982	(1,176)
Corporate Expenses	(5,637)	(5,558)
	\$ (4,655)	\$ (6,734)

<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.

	<b>Three Months Ended October 31</b>	
	<b>2006</b>	<b>2005</b>
Capital Expenditures		
Grain Handling and Marketing	\$ 6,834	\$ 1,668
Agri-products	1,083	1,613
Agri-food Processing	4,454	417
	<b>\$ 12,371</b>	<b>\$ 3,698</b>

	<b>October 31</b>		<b>July 31</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>
Assets			
Grain Handling and Marketing	\$ 338,215	\$ 311,699	\$ 305,458
Agri-products	178,755	182,444	173,573
Agri-food Processing	93,834	81,186	91,076
Corporate and other	207,108	198,563	203,923
	<b>\$ 817,912</b>	<b>\$ 773,892</b>	<b>\$ 774,030</b>

### 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.

			<b>October 31</b>		<b>July 31</b>
			<b>2006</b>	<b>2005</b>	<b>2006</b>
	Company				
	Producer	Reimbursement	Producer	Producer	Producer
	Due Date -	Date -	Balance	Balance	Balance
	January 31	December 31	Outstanding	Outstanding	Outstanding
2004 loan program	2005	2005	\$ -	\$ 7,748	\$ -
2005 loan program	2006	2006	4,585	171,779	6,047
2006 loan program	2007	2007	166,958	-	182,315
			<b>\$ 171,543</b>	<b>\$ 179,527</b>	<b>\$ 188,362</b>

	<b>October 31</b>		<b>July 31</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>
Total Company provision, net of loan loss share	\$ 2,846	\$ 7,950	\$ 3,251
Portion due within one year	(350)	(4,215)	(969)
Long-term portion	\$ 2,496	\$ 3,735	\$ 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 October 31, 2006, the long-term portion was \$9.2 million (October 31, 2005 - \$10.8 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 October 31, 2006, the Company's proportionate share of the undiscounted cash flow required to settle the asset retirement obligations is approximately \$12.1 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, 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 October 31, 2006, the dollar value of this commitment was \$2.5 million (2005 – nil).
- f) Funding of the Saskatchewan Wheat Pool/Grain Services Union Pension Plan (See Note 10b).

#### 14. SUBSEQUENT EVENTS

- a) Subsequent to the quarter-end, the Company made formal offers for all of the outstanding Limited Voting Common Shares, Series A Convertible Preferred Shares, and Unsecured Subordinated Convertible Debentures of United Grain Growers Limited, carrying on business as Agricore United (Agricore). Under the offers, the Company would acquire Agricore on the basis of each outstanding Limited Voting Common Share of Agricore being exchanged for 1.35 common shares of Saskatchewan Wheat Pool Inc., each outstanding Series A Convertible Preferred Share being 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 and each outstanding \$100.00 principal of 9% Convertible Unsecured Subordinated Debentures of Agricore being exchanged for 18 common shares of the Company plus 0.18 common shares of the Company per \$1.00 of accrued and unpaid interest to the date the 9% Convertible Unsecured Subordinated Debentures are taken up under the offer. The Limited Voting Common Share exchange ratio, based on trading prices at the close of business on November 7, 2006 (the announcement date), represented a premium of approximately 13% to Agricore shareholders.
- b) On November 22, 2006 the Company entered into an agreement to settle an outstanding legal matter in the Company's favour for \$4 million before legal expenses of approximately \$0.2 million. The Company will record the transaction in the second quarter.

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.

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