

## AUDITORS' REPORT TO THE SHAREHOLDERS OF SASKATCHEWAN WHEAT POOL

We have audited the consolidated balance sheets of Saskatchewan Wheat Pool as at July 31, 2003 and January 31, 2003 and the consolidated statements of earnings and retained earnings and cash flows for the six months ended January 31, 2003, six months ended July 31, 2003 and twelve months ended July 31, 2002. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at July 31, 2003 and January 31, 2003 and the results of its operations and its cash flows for the six months ended July 31, 2003, six months ended January 31, 2003 and twelve months ended July 31, 2002 in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan  
Deloitte & Touche LLP  
October 22, 2003



Chartered Accountants

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Saskatchewan Wheat Pool is responsible for the reliability, integrity and objectivity of the accompanying consolidated financial statements and annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Where necessary, the statements include amounts that are based on informed judgements and estimates by management.

To assist management in fulfilling its responsibilities, a system of internal accounting controls has been established to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that assets are safeguarded. Internal accounting and operating control policies and procedures are continually evaluated by management of the company. Management receives assistance in evaluating these controls, policies and procedures through an ongoing review by internal audit staff of the company.

The Board of Directors is responsible for approving the annual financial statements. The Board has delegated certain responsibilities to the Audit Committee, including the responsibility for reviewing the annual and quarterly financial statements with management, internal auditors and external independent auditors on matters relating to the financial reporting process.

These financial statements have been audited by the shareholders' auditors, Deloitte & Touche LLP, and their report is presented separately.



Mayo M. Schmidt  
Chief Executive Officer

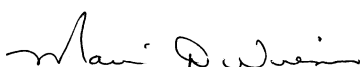


Lyn L. Kristoff  
Vice-President, Finance  
and Corporate Controller

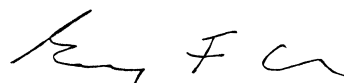
<i>(in thousands)</i>	July 31 2003	January 31 2003 (Note 2) (restated)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 1,882	\$ 2,382
Cash in trust (Note 24d)	487	13,898
Short-term investments	45,615	29,088
Accounts receivable (Notes 3m and 4)	222,137	195,729
Inventories (Notes 3m and 5)	115,972	185,227
Prepaid expenses	9,973	8,469
Future income taxes (Note 18c)	1,624	782
	397,690	435,575
Investments (Note 6)	5,020	4,945
Property, Plant and Equipment (Note 7)	291,603	314,413
Other Long-Term Assets (Note 8)	9,368	7,476
Future Income Taxes (Note 18c)	80,324	80,324
	\$784,005	\$842,733
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank indebtedness (Note 9)	\$ 28,192	\$ 15,674
Short-term borrowings (Note 9)	92,920	122,174
Members' demand loans (Note 10)	9,165	6,178
Members' Class A shares (Note 11)	1,791	1,797
Accounts payable and accrued liabilities	163,177	181,484
Long-term debt due within one year (Note 12)	7,810	7,155
	303,055	334,462
Long-Term Debt (Note 12)	265,754	273,407
Other Long-Term Liabilities (Note 13)	44,867	47,300
Future Income Taxes (Note 18c)	7,553	8,909
Non-Controlling Interest	-	54
	621,229	664,132
<b>Shareholders' Equity</b>		
Share capital (Note 14)	59,417	22,335
Contributed surplus	84	-
Convertible subordinated notes - equity component (Note 15)	130,663	156,266
Retained earnings (deficit)	(27,388)	-
	162,776	178,601
	\$784,005	\$842,733

Commitments, contingencies and guarantees (Note 24)

On behalf of the Board of Directors



Marvin D. Wiens  
Director



Gary Colter  
Director

(in thousands)	Six Months Ended July 31 2003	Pre-reorganization	
		Six Months Ended January 31 2003 (restated)	Twelve Months Ended July 31 2002 (restated)
FOR THE PERIOD ENDED			
<b>Gross Billings</b>			
Grain sales and service revenue	\$ 255,967	\$496,805	\$ 917,240
Sales and service revenue - other segments	427,700	217,725	1,086,291
Sales and service revenues	683,667	714,530	2,003,531
Canadian Wheat Board gross billings (Note 3m)	264,181	255,717	777,875
<b>Gross Billings</b>	<b>\$ 947,848</b>	<b>\$ 970,247</b>	<b>\$2,781,406</b>
<b>Sales and Other Operating Revenues</b>			
Sales and service revenues	\$ 683,667	\$ 714,530	\$2,003,531
Canadian Wheat Board tariffs	14,279	16,668	50,149
	697,946	731,198	2,053,680
<b>Cost of Sales and Expenses</b>			
Cost of sales and operating expenses	653,124	710,069	1,904,342
Selling and administrative expenses	27,204	24,519	76,526
Amortization	12,573	25,793	70,937
Loss on disposals (Note 19)	-	-	17,606
Restructuring and other provisions (Note 20)	-	-	54,360
	692,901	760,381	2,123,771
<b>Earnings (Loss) Before the Undernoted</b>	<b>5,045</b>	<b>(29,183)</b>	<b>(70,091)</b>
Non-controlling interest recovery	53	1,233	867
<b>Earnings (Loss) Before Interest and Taxes</b>	<b>5,098</b>	<b>(27,950)</b>	<b>(69,224)</b>
Interest expense (Note 17a)	23,807	23,650	57,761
Securitization expense (Note 17b)	-	3,016	7,796
<b>Loss Before Corporate Taxes</b>	<b>(18,709)</b>	<b>(54,616)</b>	<b>(134,781)</b>
Recovery of corporate taxes (Note 18a)	2,800	20,180	42,622
<b>Net Loss</b>	<b>(15,909)</b>	<b>(34,436)</b>	<b>(92,159)</b>
<b>Retained Earnings (Deficit), Beginning of Period</b>	<b>-</b>	<b>(54,422)</b>	<b>37,737</b>
Accretion of equity component of convertible subordinated notes (Notes 14b and 15)	(11,479)	-	-
<b>Retained Earnings (Deficit), End of Period</b>	<b>\$ (27,388)</b>	<b>\$ (88,858)</b>	<b>\$ (54,422)</b>
<b>Basic and Diluted Earnings (Loss) Per Share (Note 14b)</b>	<b>\$ (0.27)</b>	<b>\$ (0.92)</b>	<b>\$ (2.46)</b>

(in thousands)	Six Months Ended July 31 2003	Pre-reorganization	
		Six Months Ended January 31 2003 (restated)	Twelve Months Ended July 31 2002 (restated)
<b>FOR THE PERIOD ENDED</b>			
<b>Cash From (Used in) Operating Activities</b>			
Net loss	\$(15,909)	\$(34,436)	\$(92,159)
Add (deduct) items not involving cash			
Amortization	12,573	25,793	70,937
Loss on disposals (Note 19)	-	-	17,606
Future income taxes recovery (Note 18a)	(1,747)	(22,827)	(48,482)
Pension	983	760	(8,552)
Interest accretion and bank refinancing amortization	5,693	5,616	12,046
Non-controlling interest recovery	(53)	(1,233)	(867)
Other items and provisions	316	(77)	46,145
Cash flow from (used in) operations	1,856	(26,404)	(3,326)
Changes in non-cash working capital items			
Accounts receivable	(32,205)	27,704	192,915
Securitization of accounts receivable	-	(8,875)	(123,555)
Inventories	68,107	8,531	12,991
Securitization of inventories	-	14,277	7,451
Accounts payable	(16,189)	(31,931)	(24,303)
Prepaid expenses	(1,540)	(991)	2,412
Changes in non-cash working capital	18,173	8,715	67,911
Cash from (used in) operating activities	20,029	(17,689)	64,585
<b>Cash From (Used in) Financing Activities</b>			
Proceeds of long-term debt	-	72,969	5,488
Repayment of long-term debt	(11,766)	(2,966)	(227,363)
Proceeds (repayment) of short-term borrowings	(29,253)	4,917	(135)
Increase (repayment) of members' demand loans	2,987	(18,446)	(10,580)
Repayment of members' shares	(6)	(11)	(7)
Decrease in other long-term liabilities	(1,716)	(260)	(4,358)
Cash from (used in) financing activities	(39,754)	56,203	(236,955)
<b>Cash From (Used in) Investing Activities</b>			
Property, plant and equipment expenditures	(2,426)	(3,357)	(12,389)
Proceeds on sale of property, plant and equipment	11,972	1,390	12,752
Divestitures (Note 19)	-	-	153,622
Decrease (increase) in cash in trust (Note 24d)	13,411	(13,898)	-
Decrease in investments	378	3,168	2,553
Increase in other long-term assets	(101)	(6,201)	(1,226)
Cash from (used in) investing activities	23,234	(18,898)	155,312
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	3,509	19,616	(17,058)
<b>Cash and Cash Equivalents, Beginning of Period</b>	15,796	(3,820)	13,238
<b>Cash and Cash Equivalents, End of Period</b>	\$ 19,305	\$ 15,796	\$ (3,820)
Cash and cash equivalents consist of cash, short-term investments and bank indebtedness.			
Supplemental disclosure of cash (paid) recovered during the year:			
Interest	(27,250)	(11,439)	(44,924)
Securitization	-	(3,016)	(8,396)
Income taxes	(3,271)	(3,418)	19,575

## 1. NATURE OF BUSINESS

Saskatchewan Wheat Pool (the company), which is incorporated by a Special Act of the Saskatchewan Legislature, is a vertically integrated diversified company engaged in agri-business. The company's business operations include grain handling and marketing, agri-products sales, agri-food processing, and livestock production and marketing. The company operates as a publicly traded co-operative and as such conducts a significant portion of its business activities with its shareholder members.

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. Earnings are seasonal, with the fourth quarter traditionally being the strongest quarter for the company.

## 2. FINANCIAL REORGANIZATION AND BASIS OF PRESENTATION

### Financial Reorganization

On October 24, 2002, the company announced its intention to fund its long-term business plan by restructuring its senior secured debt and obtaining new credit facilities. An amendment to the existing credit agreement was signed, which established new financial covenants, and the company began the process of debt restructuring with its banks and medium term noteholders. A preliminary restructuring and refinancing proposal received support from the banks on January 3, 2003, but was not endorsed by an ad hoc group representing a portion of the medium term noteholders.

On February 3, 2003, the company amended its restructuring proposal; the banks supported the amendment. On February 4, the medium term noteholders voted to approve the amended capital restructuring proposal. This proposal provided for the two existing series of medium term notes (MTNs), along with \$105 million of bank term debt, to be exchanged for two new series of notes: (i) \$150 million of senior subordinated notes and (ii) \$255 million of convertible subordinated notes. The convertible subordinated notes includes holder conversion options at any time prior to November 30, 2008. The company's option to convert can be made on November 30, 2008. The proposal also stipulated changes to the company's governance structure, including the appointment of four

independent directors, and closer alignment with Toronto Stock Exchange recommendations.

Subsequent to the January 31, 2003 quarter-end, the company successfully concluded its financial restructuring initiative. There were no significant changes from the proposal approved in early February. Upon closure, both series of MTNs totaling \$300 million, along with \$105 million of bank term debt, were exchanged proportionately for two new series of notes and 22,938,037 Class B shares of the company.

### Basis of Presentation - Fresh Start Accounting

The company has accounted for the financial reorganization by using the principles of comprehensive revaluation (fresh start accounting) as required under Canadian Generally Accepted Accounting Principles (GAAP). For accounting purposes, the company has used an effective date of January 31, 2003. Fresh start accounting necessitated the revaluation of all assets and liabilities of the company at estimated fair values and the elimination of the company's deficit. The outcome of this revaluation exercise reflects, in essence, a "fresh start" for the company.

At January 31, 2003, the book value of substantially all current assets and current liabilities approximated fair value. The following assets and liabilities required restatement to fair values.

- i. Property, plant and equipment – at the fair value supported by future anticipated cash flows
- ii. Goodwill and pre-operating costs – at nil in accordance with GAAP
- iii. Pension and other employee future benefit plans – at values determined by an independent actuary
- iv. Senior subordinated notes – at current trading value
- v. Debt component of convertible subordinated notes – at present value of estimated interest payments associated with 2006-2008 fiscal years
- vi. Future income taxes – at amounts more likely than not to be realized over periods not exceeding five years
- vii. Unamortized portion of the costs associated with current and prior lending arrangements reflected as long-term assets – at nil
- viii. Unamortized portion of the costs associated with prior lending arrangements reflected as prepaid expenses – at nil

- ix. Costs of restructuring – written off through the fresh start adjustment
- x. Agri-products equipment inventory – at selling prices less disposal costs

An equity value of \$178.6 million was calculated in order to establish the January 31, 2003 fresh start consolidated balance sheet. The equity value reflects

management's estimate based on the trading value of the company's Class B shares combined with an estimate of the fair value of the non-debt component of the company's convertible subordinated notes.

The following table summarizes the adjustments recorded to implement the reorganization and to reflect the fresh start basis of accounting as at January 31, 2003.

	Prior to Reorganization	Reorganization Adjustments	Fresh Start Adjustments	After Adjustments
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash	\$ 2,382	\$ -	\$ -	\$ 2,382
Cash in trust	13,898	-	-	13,898
Short-term investments	29,088	-	-	29,088
Accounts receivable	81,439	114,290 (a)	-	195,729
Inventories	185,728	-	(501)	185,227
Prepaid expenses	10,995	-	(2,526)	8,469
Future income taxes	8,205	-	(7,423)	782
	331,735	114,290	(10,450)	435,575
<b>Investments</b>	7,544	-	(2,599)	4,945
<b>Property, Plant and Equipment</b>	611,428	-	(297,015)	314,413
<b>Other Long-Term Assets</b>	141,354	8,995 (c)	(142,873)	7,476
<b>Future Income Taxes</b>	77,569	-	2,755	80,324
	\$ 1,169,630	\$ 123,285	\$ (450,182)	\$ 842,733
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current Liabilities</b>				
Bank indebtedness	\$ 15,674	\$ -	\$ -	\$ 15,674
Short-term borrowings	7,884	114,290 (a)	-	122,174
Members' demand loans	6,178	-	-	6,178
Members' Class A shares	-	-	1,797	1,797
Accounts payable and accrued liabilities	173,489	7,995 (c)	-	181,484
Long-term debt due within one year	7,155	-	-	7,155
	210,380	122,285	1,797	334,462
<b>Long-Term Debt</b>	533,881	(105,000)(b) (300,000)(b) 150,000 (b) 22,234 (b)	792 (28,500)	273,407
<b>Other Long-Term Liabilities</b>	45,922	1,000 (c)	378	47,300
<b>Future Income Taxes</b>	10,470	-	(1,561)	8,909
<b>Non-Controlling Interest</b>	54	-	-	54
	800,707	(109,481)	(27,094)	664,132
<b>Shareholders' Equity</b>				
Share capital	457,781	8,487 (b)	(457,781)	22,335
			13,848	
Convertible subordinated note – equity component	-	224,279 (b)	(68,013)	156,266*
Retained earnings	(88,858)	-	88,858	-
	368,923	232,766	(423,088)	178,601
	\$ 1,169,630	\$ 123,285	\$ (450,182)	\$ 842,733

\*Convertible subordinated note principal \$139,257 and convertible subordinated noteholder option \$17,009

**Summary of Adjustments:**

(a) As part of the financial reorganization, the company guarantees the underlying cash value of assets sold in its securitization program. This guarantee requires that the company treat its securitization program as a financing transaction

rather than a sale transaction. The result is an increase of \$114.3 million to both accounts receivable and short-term borrowings.

(b) Both series of medium term notes totaling \$300 million, along with \$105 million of bank term debt, were exchanged proportionately for

two new series of notes and 22.9 million Class B shares of the company. Of the \$405 million exchanged, \$150 million is reflected in the reorganization column as debt.

The remaining \$255 million is reflected as follows:

Share capital -	
22,938,037 Class B shares issued	\$ 8,487
Convertible subordinated note - debt component	22,234
Convertible subordinated note - equity component	224,279
	\$ 255,000

In accordance with GAAP, the 22.9 million shares issued were recorded at fair value and the convertible subordinated notes are separated into their debt and equity components, according to their substance. The debt component is estimated at the present value of the cash interest expected to be paid in accordance with certain specified threshold tests for fiscal 2006 - 2008. The remainder is reflected as equity.

- (c) Reflects a \$13.6 million accrual for additional reorganization expenses and costs associated with new bank facilities (\$1 million reflected as long-term), net of the forgiveness of \$4.6 million in obligations associated with prior banking arrangements. These costs were subsequently valued at nil on the opening January 31, 2003 balance sheet in accordance with note 2ix.

### 3. ACCOUNTING POLICIES

#### a) Principles of Consolidation

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

Subsidiary/ Affiliate Name	Ownership %	Accounting Method
Can-Oat Milling	100%	Consolidation
Heartland Feeds	100%	Consolidation
Heartland Pork Group	83.9%	Consolidation
Prairie Malt Limited	42.4%	Proportionate Consolidation
Western Co-operative Fertilizers Limited	43%	Proportionate Consolidation

#### b) Revenue Recognition

Sales are recognized upon shipment of products and other operating and service revenues are recognized when services are performed.

Transactions in which the company acts as agent for the Canadian Wheat Board (CWB) are recorded on a net basis, with only the amount of the CWB tariff included in revenue (note 3m).

#### c) Inventories

Grain inventories in the Grain Handling and Marketing segment include both hedgeable and non-hedgeable commodities. Hedgeable grain inventories are valued on the basis of closing market quotations less freight and handling costs and also reflect gains and losses on open grain purchase and sale contracts. Non-hedgeable grain inventories are valued at the lower of cost and net realizable value. Agri-products and other inventory which consist of raw materials, work in progress and finished goods are valued at the lower of cost and net realizable value.

#### d) 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. Upon applying fresh start accounting effective January 31, 2003, the investments were recorded at their estimated fair value of \$4.9 million.

#### e) Property, Plant and Equipment and Amortization

Additions to property, plant and equipment are recorded at cost, which includes interest costs incurred on construction of major new facilities prior to the facilities becoming available for operation, less amortization. Upon applying fresh start accounting effective January 31, 2003, property, plant and equipment was valued at the estimated fair value of \$314.4 million. The company reviews the carrying value of its property, plant and equipment to determine whether such values are recoverable, with any resulting write-downs charged

to earnings. Amortization is provided for property, plant and equipment over their estimated useful lives using primarily the straight-line method. The rates used are as follows:

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

**f) Goodwill**

Goodwill was valued at nil upon applying fresh start accounting effective January 31, 2003, in accordance with GAAP.

**g) Corporate Taxes**

The company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period which includes the substantively enacted date.

**h) Deferred Revenue**

The majority of deferred revenue relates to payments pursuant to grain storage licence agreements, which are amortized into revenue over the life of the agreements which range from 10 to 40 years.

**i) Post Employment Benefits**

The cost of defined benefit pension plans and retirement allowance benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, terminations and retirement ages of plan members. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The cost of pension benefits for defined contribution plans is charged to operations as contributions become due.

**j) Foreign Exchange Contracts and Foreign Currency Transactions**

The company enters into forward foreign exchange contracts to hedge exposure to foreign currency exchange risk resulting from transactions denominated in foreign currencies. Unrealized gains and losses on forward foreign exchange contracts are recognized in income on a basis consistent with the recognition of the underlying hedged transactions. Monetary assets and liabilities are translated into Canadian dollars at the rate in effect at the balance sheet date; non-monetary items are translated at the rate in effect on the transaction date. Exchange gains or losses arising from translations are recognized in income in the period in which they occur.

**k) Stock-Based Compensation Plan**

Effective August 1, 2002, the company adopted the new Canadian Institute of Chartered Accountants (CICA) standard with respect to stock-based compensation and other stock-based payments, which requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to direct awards of stock to employees. The company records an expense in the period options are granted based on the fair value method as determined by the Black-Scholes pricing model, and records the offset to contributed surplus.

**l) 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. Actual results could differ from those estimates.

**m) Changes in Accounting Policies**

i) For the 2003 fiscal year, the company retroactively adopted the new Canadian Institute of Chartered Accountants (CICA) standard regarding revenue recognition (Emerging Issues Committee Abstract 123). This standard applies to the company's and the industry's handling of certain grains on behalf of the Canadian Wheat Board (CWB). Under this new accounting policy, the company records only the tariff revenue related to handling CWB grains. The company

purchases grain from producers on behalf of the CWB and records the related amounts as accounts receivable due from the CWB. The impact of adopting this standard is as follows:

- No impact on net loss or retained earnings (deficit).
- Reduces sales and other operating revenues for the six months ended July 31, 2003 by \$249.9 million (six months ended January 31, 2003 - \$239.0 million, 12 months ended July 31, 2002 - \$727.7 million).
- Reduces costs of sales and operating expenses for the six months ended July 31, 2003 by \$249.9 million (six months ended January 31, 2003 - \$239.0 million, 12 months ended July 31, 2002 - \$727.7 million).
- Increases accounts receivable and correspondingly decreases inventories at July 31, 2003 by \$112.5 million (January 31, 2003 - \$101.3 million).

ii) Effective August 1, 2002, the company prospectively adopted the CICA new standard with respect to goodwill and other intangible assets, which requires that goodwill no longer be amortized but instead be tested for impairment at least annually.

iii) Effective August 1, 2002, the company prospectively adopted the new CICA standard with respect to stock-based compensation as outlined in note 3k.

#### 4. ACCOUNTS RECEIVABLE (see note 3m)

	July 31 2003	January 31 2003
Trade accounts	\$ 79,641	\$ 72,285
The Canadian Wheat Board	137,624	106,190
Other	4,872	17,254
	<u>\$222,137</u>	<u>\$195,729</u>

#### 5. INVENTORIES (see note 3m)

	July 31 2003	January 31 2003
Grain	\$ 37,461	\$ 100,621
Agri-products	51,231	50,166
Agri-food processing	14,410	15,431
Other	12,870	19,009
	<u>\$ 115,972</u>	<u>\$ 185,227</u>

#### 6. INVESTMENTS

	July 31 2003	January 31 2003
Investments in significantly influenced companies		
- equity method	\$ 2,229	\$ 2,261
Other long-term investments		
- cost method	2,791	2,684
	<u>\$ 5,020</u>	<u>\$ 4,945</u>

#### 7. PROPERTY, PLANT AND EQUIPMENT

	July 31 2003	Accumulated Amortization	July 31 2003	January 31 2003
Sites, trackage and paving	\$ 9,628	\$ 151	\$ 11,744	
Buildings	122,116	2,088	126,105	
Machinery and equipment	170,003	10,099	175,205	
Vehicles	224	32	220	
Construction in progress	2,002		1,139	
	<u>303,973</u>	<u>\$12,370</u>	<u>314,413</u>	
Accumulated Amortization	(12,370)		-	
Net Book Value	\$ 291,603		\$ 314,413	

Amortization of property, plant and equipment for the six months ended July 31, 2003 was \$12.4 million (six months ended January 31, 2003 - \$23.2 million, 12 months ended July 31, 2002 - \$61.2 million).

#### 8. OTHER LONG-TERM ASSETS

	July 31 2003	January 31 2003
Deferred pension assets	\$ 2,379	\$ 2,911
Livestock	3,791	3,649
Other	3,566	916
	<u>9,736</u>	<u>7,476</u>
Accumulated Amortization	(368)	-
Net Book Value	\$ 9,368	\$ 7,476

Amortization of goodwill, pre-operating costs and deferred financing costs for the six months ended July 31, 2003 total nil (six months ended January 31, 2003 - \$2.6 million, 12 months ended July 31, 2002 - \$21.2 million).

## 9. BANK INDEBTEDNESS AND SHORT-TERM BORROWINGS

### a) Bank Indebtedness

	July 31 2003	January 31 2003
Saskatchewan Wheat Pool bank indebtedness	\$ 23,471	\$ 8,804
Subsidiaries' and proportionate share of joint ventures' bank indebtedness	4,721	6,870
<b>Total</b>	<b>\$ 28,192</b>	<b>\$ 15,674</b>

### b) Short-term Borrowings

	July 31 2003	January 31 2003
Saskatchewan Wheat Pool bank short-term borrowings	\$ 92,920	\$ 122,174
Subsidiaries' and proportionate share of joint ventures' short-term borrowings	-	-
<b>Total</b>	<b>\$ 92,920</b>	<b>\$ 122,174</b>

As part of the restructuring, the company established a \$240 million asset backed revolving credit facility with its bankers, secured by accounts receivable, to the extent of drawings on the securitization program, and a first charge on the company's assets. The \$240 million limit is adjusted to \$275 million during certain months of fiscal 2004. The facility matures July 31, 2005. Interest is payable monthly at prime plus 3%.

At July 31, 2003, the company had outstanding letters of credit and similar instruments of \$25.0 million related to operating an agri-business (January 2003 - \$34.8 million). These instruments effectively reduce the amount of cash that can be drawn on the revolving credit facility.

At July 31, 2003, availability under the revolving credit facility was \$42.5 million.

Subsidiaries and proportionate share of joint ventures' short-term borrowings consist of bank operating loans, which are secured by inventories, accounts receivable

and property, plant and equipment. The company does not guarantee, nor does it have responsibility for the repayment of the subsidiaries' or joint ventures' loans.

## 10. MEMBERS' DEMAND LOANS

Members' demand loans are funds loaned to the company by Class A shareholders and employees. At July 31, 2003, the loans bear interest at 6.0% (January 2003 - 4.0%).

The loans are secured by a second ranking charge against the company's assets - subordinate to the revolving credit facility and the senior secured bank term loan and ranking equally with the senior subordinated notes and the members' term loans.

## 11. MEMBERS' CLASS A SHARES

### Authorized

Unlimited Class A voting shares par value \$25.

Class A voting shares are held by farmer-members and are redeemable at the option of the shareholder at their par value. These shares are reflected as a current liability due to the redeemable nature. The following table summarizes the Class A share capital for the six-month period ended July 31, 2003 (number of shares and dollar values are reflected in thousands).

Class A Shares	Issued and outstanding	
	# Shares	\$ Amount
Balance at July 31, 2002	72,328	\$ 1,808
Redemptions - net	(464)	(11)
Balance at January 31, 2003	71,864	1,797
Redemptions - net	(206)	(6)
<b>Balance at July 31, 2003</b>	<b>71,658*</b>	<b>\$ 1,791</b>

\* not shown in thousands

## 12. LONG-TERM DEBT

	July 2003 Weighted Average Interest Rate	July 2003 Carrying Value	January 2003 Weighted Average Interest Rate	January 2003 Carrying Value*
Senior secured bank term loan (a)	8.0%	\$ 90,600	8.0%	\$ 100,000
Senior subordinated notes (b)	8.0%	125,491	8.0%	121,500
Convertible subordinated notes - debt component (c)	9.0%	23,935	9.0%	22,234
Members' term loans	7.03%	<u>4,676</u>	6.85%	<u>4,713</u>
Sub-total		<u>244,702</u>		<u>248,447</u>
Subsidiaries' and proportionate share of joint ventures' debt:				
Secured	6.11%	26,140	5.65%	28,835
Unsecured - interest free		<u>2,722</u>		<u>3,280</u>
Sub-total		<u>28,862</u>		<u>32,115</u>
Consolidated long-term debt		273,564		280,562
Portion due within one year		(7,810)		(7,155)
		\$ 265,754		\$ 273,407

\*In accordance with fresh start accounting the carrying value and fair value are equal at January 31, 2003

### (a) Senior Secured Bank Term Loan

- Interest is payable monthly at 8% until the commencement of blended monthly principal and interest payments of approximately \$1.5 million.
- Blended payments to begin October 1, 2004 provided certain EBITDA thresholds are achieved. In the event these thresholds are not achieved, blended payments will begin October 1, 2005.
- Balloon principal payment due July 31, 2008.
- Secured by a first ranking charge on the company's assets.
- During the six months ended July 31, 2003, in accordance with the credit agreement with the company's bankers, the company repaid \$9.4 million, representing the net proceeds received from the sale of certain property, plant and equipment.
- The fair market value is equal to the carrying value at July 31, 2003.

### (b) Senior Subordinated Notes

- Interest is payable monthly into a trust and distributed quarterly. Prior to July 31, 2005, interest is at 8% of the face value; thereafter interest is at 12%. The face value at July 31, 2003 is \$150 million (January 31, 2003 - \$150 million).
- No principal payments are required until maturity on November 29, 2008.

- The company may redeem the notes prior to maturity at a premium ranging from 106% of the principal at any time prior to January 1, 2005 to 101% after December 31, 2006.
- Secured by a second ranking charge against the company's assets - subordinate to the revolving credit facility and the senior secured bank term loan and ranking equally with the members' demand loans and members' term loans.
- The fair market value of senior subordinated notes at July 31, 2003 was approximately \$124.5 million based upon the quoted market price.

### (c) Convertible Subordinated Notes

- Interest accrues at 9%. No payment of interest is required prior to July 31, 2005. Interest may become payable after the end of each of the fiscal years 2006 - 2008 provided that certain consolidated EBITDA less consolidated cash interest and securitization threshold tests are met. Annual interest payments are limited to a maximum of the interest accruing on the notes during each of the fiscal years 2006 - 2008.
- Secured by a third ranking charge against the company's assets.
- Convertible by the holder into Class B non-voting shares of the company at the rate of approximately 2,227.2 shares per \$1,000 of note principal at any

time prior to November 30, 2008 (subject to adjustment in certain events, such as a share consolidation or share split).

- On November 30, 2008, the company has the right to convert, subject to certain conditions, the convertible subordinated notes into shares of a single class of voting common shares of the company that represent 90% of the outstanding shares of such class on a fully diluted basis, provided that any conversions by holders of such notes into Class B non-voting shares prior to maturity proportionately reduce this ratio. Under this provision, the convertible subordinated notes that remain outstanding at July 31, 2003 would receive approximately 72% of these newly created shares on a fully diluted basis.
- In accordance with GAAP, the convertible subordinated notes are separated into their debt and equity components, according to their substance. The debt component is estimated at the present value of the cash interest expected to be paid in accordance with the aforementioned threshold tests for fiscal 2006 - 2008. The remainder is reflected as equity.
- During the six months ended July 31, 2003, \$50.2 million face value of 9% notes were converted at the holders' option into 111,743,788 Class B non-voting shares, leaving \$204.8 million of face value outstanding.
- The fair market value of convertible subordinated notes at July 31, 2003 was approximately \$159.8 million based upon the quoted market price.

The sale of certain collateral for proceeds in excess of \$10 million would necessitate a partial redemption of, first, the senior subordinated notes until redeemed in full and, secondly, the proceeds would be applied to the convertible subordinated notes.

Members' term loans are secured and consist of two-year to seven-year loans with Class A shareholders and employees. Interest is payable semi-annually at interest rates which vary from 4.4% to 9.0%. The fair market value of member loans at July 31, 2003 was \$4.7 million.

The subsidiaries' and the proportionate share of joint ventures' secured debts bear interest at fixed and variable rates. The secured debts mature in years 2004 to 2016. The debts are secured by certain assets and some are subject to meeting certain covenants. The

subsidiaries' and the proportionate share of joint ventures' unsecured debts mature in 2005. The fair market value at July 31, 2003 of subsidiaries' and the proportionate share of joint ventures' secured debt was \$26.1 million and unsecured debt was \$2.3 million.

The company does not guarantee nor does it have responsibility for the repayment of the subsidiaries' or joint ventures' debts.

The maturities of subsidiaries' and the proportionate share of joint ventures' long-term debt are as follows:

2004	\$	6,529
2005		5,907
2006		5,903
2007		5,592
2008		684
Subsequent years		4,247
	\$	28,862

### 13. OTHER LONG-TERM LIABILITIES

	July 31	January 31
	2003	2003
Provision for reclamation costs (a)	\$ 13,928	\$ 12,920
Deferred revenue	13,469	15,069
Restructuring provision (b)	5,222	7,961
Retirement allowances	5,049	6,440
Environmental	1,850	2,095
Other	5,349	2,815
	\$ 44,867	\$ 47,300

- (a) In 1987, a joint venture, which manufactured phosphate and nitrate fertilizers, closed two of its facilities. The provision for reclamation costs represents the company's proportionate share of the best estimate by management of the joint venture, of the costs that it would incur during the reclamation process. Reclamation involves the demolition of the manufacturing facilities and the reclamation of the phosphogypsum stacks. Uncertainty exists regarding the estimation of future decommissioning and reclamation costs.
- (b) Reflects management's best estimate of future costs associated with the fiscal 2003 provision for the company's investment in Comercializadora La Junta, S.A. de C.V.

### 14. SHARE CAPITAL

#### Authorized

Unlimited Class B non-voting shares

Class B non-voting shares are traded on the Toronto Stock Exchange. Under the terms of its bank financing

agreement, the company is prohibited from paying dividends on Class B shares. In accordance with the Act of Incorporation of the company, a person, including any persons associated or affiliated with that person, may not own more than 10% of the total number of issued Class B shares.

Class B Shares	Stock Options		Issued and outstanding	
	# Options	\$ Ascribed Value	# Shares	\$ Amount
Balance at July 31, 2002	2,508	\$ -	37,425	\$ 455,884
Issued during period	223	100	-	-
Balance at January 31, 2003 - pre-reorganization	2,731	100	37,425	455,884
Issued as part of restructuring	-	-	22,938	8,487
Fair value adjustments	-	(100)	-	(442,036)
Balance at January 31, 2003 - post-reorganization	2,731	-	60,363	22,335
Convertible subordinated notes converted to Class B shares in the period	-	-	111,744	37,082
Options cancelled	(320)	-	-	-
Balance at July 31, 2003	2,411	\$ -	172,107	\$ 59,417

#### a) Stock Options

##### *Management Stock Option Plan*

Options granted under the Management Stock Option Plan must be approved by the Board of Directors. To date, 3,729,700 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.

##### *New Members' Stock Option Plan*

On July 31, 2000, this plan was closed to new applicants. Options previously issued will continue until exercised or expired.

The fair value of options issued in the year was determined by the Black-Scholes option pricing model with the following assumptions: risk free rate 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. There are 325,264 options issued in the first quarter with an exercise price (equal to market price at the date of issue) of \$1.55. For the six months ended July 31, 2003 \$0.1 million was expensed as stock-based compensation (six months ended January 31, 2003 - \$0.1 million).

A continuity of the stock options is as follows:

	July 31, 2003		January 31, 2003	
	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price
Outstanding, beginning of period	2,731	\$ 5.15	2,508	\$ 5.56
Granted	-	\$ -	325	\$ 1.55
Exercised	-	\$ -	-	\$ -
Cancelled	(320)	\$ 8.44	(102)	\$ 3.83
Outstanding, end of period	<u>2,411</u>	\$ 4.71	<u>2,731</u>	\$ 5.15
Options exercisable, end of period	1,222	\$ 6.09	1,333	\$ 6.96

The following table summarizes information about total options outstanding at July 31, 2003:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding at July 31, 2003 (000's)	Range of Expiry Periods	Weighted Average Exercise Price	Number Exercisable at July 31, 2003 (000's)	Weighted Average Exercise Price
<\$ 3	925	2011-2012	\$ 2	285	\$ 3
\$ 3 - \$ 7	1,121	2004-2010	\$ 5	621	\$ 5
\$ 8 - \$13	194	2004-2009	\$ 8	146	\$ 8
\$14 - \$17	171	2006-2008	\$ 15	170	\$ 15
	<u>2,411</u>		\$ 5	<u>1,222</u>	\$ 6

**b) Earnings Per Share**

	Six months July 31, 2003	Six months January 31, 2003	12 months July 31, 2002
Net loss for the period	\$ (15,909)	\$ (34,436)	\$ (92,159)
Less: Accretion of equity component of convertible subordinated notes	(11,479)	-	-
<b>Total</b>	<b>\$ (27,388)</b>	<b>\$ (34,436)</b>	<b>\$ (92,159)</b>
Basic and diluted loss per share	\$ (0.27)	\$ (0.92)	\$ (2.46)
Weighted average number of shares outstanding*	99,947,222	37,425,219	37,425,219

\*not shown in thousands

In calculating the weighted average number of shares outstanding, the 22.9 million shares issued as part of the restructuring were assumed to be issued as of January 31, 2003.

The potentially dilutive effect of the conversion of the convertible subordinated notes and the exercise of options related to the New Members' and Management Stock Option Plans were not included in the calculation of diluted earnings (loss) per share as the result would be anti-dilutive.

**15. CONVERTIBLE SUBORDINATED NOTES - EQUITY COMPONENT**

The company issued \$255 million of convertible subordinated notes as part of the January 31, 2003 financial restructuring. As outlined in note 12c these convertible subordinated notes are classified on the balance sheet into their debt and equity components. The table below provides a continuity of the equity component.

January 31, 2003 face value	\$ 255,000
Portion reflected as share capital - reorganization adjustment (see note 2)	(8,487)
Portion reflected as debt - reorganization adjustment (see note 2)	(22,234)
	224,279
Fair value adjustment (see note 2)	(68,013)
January 31, 2003 fair value - post fresh start	156,266
Accretion to retained earnings (see note 14b)	11,479
Conversions in the six-month period ended July 31, 2003	
with a face value of \$50.2 million (see note 14)	(37,082)
	<u>\$ 130,663</u>

16. POST EMPLOYMENT BENEFITS

	Pension Benefit Plans		Retirement Allowances	
	July 31 2003	January 31 2003	July 31 2003	January 31 2003
<b>Plan Assets</b>				
Fair value, at beginning of period	\$ 228,547	\$ 248,534	\$ -	\$ -
Actual return on plan assets	3,188	3,799	-	-
Employer contributions	-	-	76	128
Employees' contributions	172	189	-	-
Benefits paid	(8,105)	(7,478)	(76)	(128)
Fresh start adjustment	-	(16,497)	-	-
Fair value, at end of period	223,802	228,547	-	-
<b>Accrued Benefit Obligation</b>				
Balance, beginning of period	187,914	184,571	4,875	6,469
Current service cost	873	989	98	98
Interest cost	6,064	6,050	152	152
Benefits paid	(8,149)	(7,507)	(76)	(128)
Actuarial (gains) losses	-	-	-	-
Plan amendments	-	-	-	-
Fresh start adjustment	-	3,811	-	(1,716)
Balance, end of period	186,702	187,914	5,049	4,875
Funded status-plan surplus (deficit)	37,100	40,633	(5,049)	(4,875)
Unamortized net actuarial loss (gain)	4,697	-	-	(1,565)
Unamortized past service costs	-	-	-	-
Unamortized transitional asset	-	-	-	-
Accrued benefit asset (liability)	41,797	40,633	(5,049)	(6,440)
Valuation allowance	(39,127)	(37,408)	-	-
Accrued benefit asset (liability), net of valuation allowance	2,670	3,225	(5,049)	(6,440)
Add: accrued benefit liability of proportionately consolidated companies	(291)	(314)	-	-
Consolidated accrued benefit asset (liability), net of valuation allowance	\$ 2,379	\$ 2,911	\$ (5,049)	\$ (6,440)

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

	Pension Benefit Plans			Retirement Allowance		
	July 31 2003	January 31 2003	July 31 2002	July 31 2003	January 31 2003	July 31 2002
Discount rate	6.50%	6.50%	7.10%	6.50%	6.50%	6.60%
Expected long-term rate of return on plan assets	7.00%	7.00%	8.00%	-	-	-
Rate of compensation increase	3.50%	3.50%	3.00%	4.00%	4.00%	3.00%

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

The company's net benefit plan (income) expense is as follows:

	Pension Benefit Plans			Retirement Allowance		
	Six Months ended July 31 2003	Six Months ended January 31 2003	12 Months ended July 31 2002	Six Months ended July 31 2003	Six Months ended January 31 2003	12 Months ended July 31 2002
Current service cost	\$ 701	\$ 799	\$ 1,442	\$ 98	\$ 98	\$ 265
Interest cost	6,064	6,050	12,634	152	152	446
Expected return on plan assets	(7,885)	(8,415)	(21,917)	-	-	-
Amortization of past service costs	-	-	2,324	-	-	-
Amortization of net actuarial gain	-	-	(2,218)	-	-	(225)
Amortization of transitional asset	-	-	(6,291)	-	-	-
Valuation allowance provided against accrued benefit asset	1,719	2,216	9,522	-	-	-
Curtailment/settlement gains	-	-	-	-	-	(565)
	599	650	(4,504)	250	250	(79)
Net benefit expense of proportionately consolidated companies	135	96	282	-	-	-
Net benefit (income) expense	\$ 734	\$ 746	\$ (4,222)	\$ 250	\$ 250	\$ (79)

The total expense for the company's defined contribution plans for the six months ended July 31, 2003 is \$1.4 million (six months ended January 31, 2003 - \$1.5 million, 12 months ended July 31, 2002 - \$3.5 million).

**17. INTEREST AND SECURITIZATION FEES AND EXPENSE**

**a) Interest**

	Six Months ended July 31, 2003	Six Months ended January 31, 2003	12 Months ended July 31, 2002
Interest on long-term debt	\$ 11,218	\$ 16,112	\$ 34,589
Other interest	6,896	1,922	11,126
Interest accretion and amortization of deferred financing costs	5,693	5,616	12,046
	\$ 23,807	\$ 23,650	\$ 57,761

**b) Securitization**

Securitization expense	\$ -	\$ 3,016	\$ 7,796
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**18. CORPORATE TAXES**

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

	Six Months ended July 31, 2003	Six Months ended January 31, 2003	12 Months ended July 31, 2002
Current	\$ 1,053	\$ (2,647)	\$ (5,860)
Future	1,747	22,827	48,482
	\$ 2,800	\$ 20,180	\$ 42,622

**b) The company's effective income tax rate is determined as follows:**

	Six Months ended July 31, 2003	Six Months ended January 31, 2003	12 Months ended July 31, 2002
Basic federal and provincial tax rate	40.3%	40.3%	43.0%
Future income taxes not recognized	(20.2)	-	-
Loss on disposal and provisions, where tax benefit not recognized	-	0.3	(7.8)
Future taxes due to reduction in tax rates	-	-	(2.3)
Federal and provincial capital taxes	(0.4)	(2.7)	(1.8)
Other	(4.7)	(1.0)	0.5
	15.0%	36.9%	31.6%

The "Other" category reflects the impact of the manufacturing and processing deduction, tax paid on equity earnings, non-taxable dividends, non-controlling interest, investment tax credits and miscellaneous adjustments.

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

	July 31 2003	January 31 2003
Future tax assets:		
Non-capital loss carry-forwards	\$ 72,814	\$ 66,783
Restructuring and refinancing costs not deducted for tax	15,688	15,177
Senior subordinated notes	(9,068)	(10,545)
Convertible subordinated notes, debt component	6,798	8,227
Undepreciated capital cost in excess of net book value	124,747	120,336
Other	12,545	19,758
Subtotal	223,524	219,736
Valuation allowance*	(141,576)	(138,630)
Total future tax assets	\$ 81,948	\$ 81,106

\*The valuation allowance represents management's best estimate of the allowance necessary to reflect the future tax assets at an amount that the company considers it likely to be realized over a period not to exceed five years.

Classified in the consolidated financial statements as:

Current future tax asset	\$ 1,624	\$ 782
Long-term future tax asset	80,324	80,324
	\$ 81,948	\$ 81,106

Future tax liabilities:

Net book value in excess of undepreciated capital cost	\$ 12,687	\$ 13,669
Reclamation costs not deductible for tax	(4,933)	(4,955)
Other	(201)	195
Total future tax liabilities	\$ 7,553	\$ 8,909

Classified in the consolidated financial statements as:

Current future tax liability	\$ -	\$ -
Long-term future tax liability	7,553	8,909
	\$ 7,553	\$ 8,909

d) At July 31, 2003, the company has net capital loss carry forwards of \$3.8 million. These losses can be carried forward indefinitely and applied against taxable capital gains realized. The future tax benefits of these losses have not been recognized in these financial statements.

**19. LOSS ON DISPOSALS**

In the year ended July 31, 2002, the company disposed of various assets and investments, receiving total cash proceeds of \$153.6 million and realizing a net loss of \$17.6 million, or \$5.8 million after tax.

**20. RESTRUCTURING AND OTHER PROVISIONS**

In the year ended July 31, 2002, the company recorded a provision of \$29.8 million as an extension of its previous elevator consolidation program, and in an effort to reduce costs and improve efficiency. The company also recorded a provision of \$24.6 million for Comercializadora La Junta, S.A. de C.V. (CLJ), representing management's best estimate of the impairment in the carrying value and the related costs of its investment in CLJ. CLJ owns a port terminal in Manzanillo, Colima, Mexico.

The total provision was \$54.4 million, or \$44.3 million after tax.

## 21. FINANCIAL INSTRUMENTS AND HEDGING

The company uses commodity futures contracts to hedge the risk associated with commodity prices. In addition, the company uses derivative financial instruments to manage its exposure to market risks relating to interest rates and foreign currency exchange rates. The company does not use commodity futures contracts or derivative financial instruments for speculative trading purposes.

In accordance with GAAP, derivative financial instruments outstanding at period ends (forward foreign exchange contracts and interest rates swaps) are required to be disclosed. No interest rate swaps are in existence at July 31, 2003 or January 31, 2003. Forward foreign exchange contracts, none of which have terms longer than three years, including the company's proportionate share of joint ventures, are as follows:

	Sells
July 31, 2003	
Notional U.S. dollars	\$ 92,292
Canadian equivalent	\$ 136,641
Fair value	\$ 129,521
January 31, 2003	
Notional U.S. dollars	\$ 74,202
Canadian equivalent	\$ 115,965
Fair value	\$ 113,088

### a) Credit Risk

The company is exposed to credit risk from customers in all the business segments. In the Grain Handling and Marketing segment, a significant amount is receivable from the CWB (see note 4). The customer base in all other segments is diverse which minimizes significant concentration of credit risk. Credit risk is limited due to

the large number of customers in differing industries and geographic areas.

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

### b) Fair Value

The carrying value of long-term debt (see note 12) that bears interest at variable rates approximates fair value. The fair value of long-term debt that bears interest at fixed rates is based on its quoted market price or on discounted future cash flows using rates currently available for debt of similar terms and maturities if the quoted market price was not available.

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

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

## 22. INTERESTS IN JOINT VENTURES

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

	July 31 2003	January 31 2003	
Current assets	\$ 91,832	\$ 82,576	
Long-term assets	\$ 61,575	\$ 63,645	
Current liabilities	\$ 63,963	\$ 51,061	
Long-term liabilities	\$ 29,715	\$ 31,627	
	Six months ended July 31 2003	Six months ended January 31 2003	12 months ended July 31 2003
Revenue	\$ 116,341	\$ 70,613	\$ 498,951
Expenses	\$ 100,373	\$ 69,664	\$ 491,349
Net earnings	\$ 15,968	\$ 949	\$ 7,602
Cash from operating activities	\$ 41,450	\$ 12,736	\$ 14,182
Cash used in financing activities	\$ (24,376)	\$ (4,767)	\$ (3,443)
Cash (used in) from investing activities	\$ (4,956)	\$ 962	\$ 5,708

### 23. SEGMENTED INFORMATION

The company operated under four business segments during the year, the principal activities of which are as follows:

#### a) Grain Handling and Marketing

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

#### b) Agri-products

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

#### c) Agri-food Processing

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

#### d) Other

Other activities primarily consist of hog production and marketing; the sale of feed for livestock, poultry and fish; and the assets held by the Corporate division.

The accounting policies of the segments are the same as those described in the summary of accounting policies. The company accounts for inter-segment sales at current market prices as if the sales were to third parties.

	Six Months ended July 31, 2003		
	2003	2003	2003
	Total	Inter-segment	External
<b>Sales</b>	<b>Sales</b>	<b>Sales</b>	<b>Sales</b>
Grain Handling and Marketing <sup>1</sup>	\$ 283,737	\$ 13,490	\$ 270,247
Agri-products	319,347	-	319,347
Agri-food Processing	64,495	1,129	63,366
Other	45,177	191	44,986
	<b>\$ 712,756</b>	<b>\$ 14,810</b>	<b>\$ 697,946</b>

	Six Months ended January 31, 2003			12 Months ended July 31, 2002		
	2003	2003	2003	2002	2002	2002
	Total	Inter-segment	External	Total	Inter-segment	External
<b>Sales</b>	<b>Sales</b>	<b>Sales</b>	<b>Sales</b>	<b>Sales</b>	<b>Sales</b>	<b>Sales</b>
Grain Handling and Marketing <sup>1</sup>	\$ 530,392	\$ 16,919	\$ 513,473	\$ 1,015,597	\$ 48,207	\$ 967,390
Agri-products	123,198	-	123,198	435,938	-	435,938
Agri-food Processing	65,142	474	64,668	545,010	1,505	543,505
Other	30,460	601	29,859	107,797	950	106,847
	<b>\$ 749,192</b>	<b>\$ 17,994</b>	<b>\$ 731,198</b>	<b>\$ 2,104,342</b>	<b>\$ 50,662</b>	<b>\$ 2,053,680</b>

<sup>1</sup> Includes grain sales and service revenue and Canadian Wheat Board tariffs.

	Six Months ended July 31, 2003		
	EBITDA	Amortization	EBIT
<b>Segment Earnings</b>			
Grain Handling and Marketing	\$ (6,393)	\$ 4,605	\$ (10,998)
Agri-products	29,423	4,404	25,019
Agri-food Processing	8,926	2,492	6,434
Other	(5,312)	1,072	(6,384)
Segment Results	26,644	12,573	14,071
Corporate Expenses	(8,973)	-	(8,973)
Per Financial Statements	<b>\$ 17,671</b>	<b>\$ 12,573</b>	<b>\$ 5,098</b>

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

	Six Months ended January 31, 2003		
<b>Segment Earnings</b>	EBITDA	Amortization	EBIT
Grain Handling and Marketing	\$ 7,169	\$ 14,883	\$ (7,714)
Agri-products	(5,926)	3,677	(9,603)
Agri-food Processing	6,327	2,542	3,785
Other	(1,873)	4,438	(6,311)
Segment Results	5,697	25,540	(19,843)
Corporate Expenses	(7,854)	253	(8,107)
Per Financial Statements	\$ (2,157)	\$ 25,793	\$ (27,950)

	Twelve Months ended July 31, 2002			
<b>Segment Earnings</b>	EBITDA	Amortization	Provisions	EBIT
Grain Handling and Marketing	\$ 27,655	\$ 32,961	\$ 24,600	\$ (29,906)
Agri-products	21,827	11,659	(7,818)	17,986
Agri-food Processing	35,376	15,111	28,991	(8,726)
Other	4,449	9,701	(3,567)	(1,685)
Segment Results	89,307	69,432	42,206	(22,331)
Corporate Expenses	(15,628)	1,505	29,760	(46,893)
Per Financial Statements	\$ 73,679	\$ 70,937	\$ 71,966	\$ (69,224)

	Six Months ended July 2003	Six Months ended January 2003	Twelve Months ended July 2002
<b>Capital Expenditures</b>			
Grain Handling and Marketing	\$ 642	\$ 837	\$ 4,061
Agri-products	649	565	1,785
Agri-food Processing	1,038	1,868	5,905
Other	97	87	638
Per Financial Statements	\$ 2,426	\$ 3,357	\$ 12,389

	As at July 31 2003	As at January 31 2003
<b>Assets</b>		
Grain Handling and Marketing	\$ 380,933	\$ 434,683
Agri-products	166,762	160,574
Agri-food Processing	91,810	95,978
Other	144,500	151,498
Per Financial Statements	\$ 784,005	\$ 842,733

	Six Months ended July 2003	Six Months ended January 2003	Twelve Months ended July 2002
<b>Foreign Sales</b>			
Grain Handling and Marketing	\$ 77,112	\$ 145,354	\$ 309,539
Agri-products	1,171	827	612
Agri-food Processing	54,516	54,317	211,999
Other	5,223	5,504	5,317
	\$ 138,022	\$ 206,002	\$ 527,467

**24. COMMITMENTS, CONTINGENCIES AND GUARANTEES**

a) The company, including its subsidiaries and its proportionate share of joint ventures, has operating leases relating primarily to railcars, buildings and equipment. Future minimum lease payments having initial or remaining lease terms in excess of one year at July 31, 2003 are as follows:

2004	\$ 7,759
2005	\$ 6,431
2006	\$ 5,667
2007	\$ 4,526
2008	\$ 3,943
Subsequent years	\$22,936

b) The company and its subsidiaries are involved in various claims and litigation arising in the ordinary course and conduct of their business. Although such matters cannot be predicted with certainty, management does not consider the company's exposure to such litigation to be material to these consolidated financial statements.

c) Banking letters of credit and similar instruments - see note 9.

d) Under the terms of an agreement, a financial institution provides credit for the purchase of crop inputs to customers of the company. 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 loan losses in excess of a credit loss reserve. At July 31, 2003, \$135 million was outstanding under the program of which \$1.3 million represented past due amounts related to the 2002 crop year. The company expects that loan losses in excess of the credit loss reserve will not be significant.

**25. COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified to conform with the financial statement presentation adopted in the current year.