SASKATCHEWAN WHEAT POOL
CONFERENCE CALL FOR JUNE 25, 2003 @ 10:30 A.M. EDT
CHAIRPERSON: COLLEEN VANCHA

Operator:
Please stand by; your meeting is about to begin.

Good morning and welcome to the "Saskatchewan Wheat Pool Third Quarter Results" conference call for June 25, 2003. Your host for today is Colleen Vancha, Director of Investor Relations. Ms. Vancha, please go ahead.

Colleen Vancha:
Thank you operator. Good morning ladies and gentlemen. Thank you for joining us for our third quarter conference call.

Today, both our CEO, Mayo Schmidt and our Interim CFO, Lyn Kristoff, will address participants. Fran Malecha, our newly appointed leader of the Grain Group, is also available to take your questions.

Mayo, I'll turn the call over to you.

Mayo Schmidt:
Thank you for joining us this morning and again thank you for your interest in the Pool. As our press release indicates, the Company has now fully reflected its financial restructuring in our third quarter. The Pool has a fresh start.

In a moment, Lyn will take you through some of the key components of the comprehensive revaluation, but before I turn the call over to Lyn, I would like to make a few brief comments about the quarter, current crop conditions, and what a normal crop can mean for the Pool, and for you, our shareholders.

For the line by line review of the results, I would ask you to please reflect on the information in our press release and quarterly report, which is available on our website and on SEDAR.

The results for the third quarter are in line with management's expectations. The third quarter is seasonally the weakest for the industry. This spring, substantial rains kept farmers out of the fields but brought much-needed relief to drought-stricken regions.

Volumes through our elevator system and port terminals were very slow, a direct result of the lack of grain stocks due to last year's drought, both in terms of quantity and in terms of quality. We also saw the drought impact our malt barley operations. Typically Canada is an exporter of malt barley, but this year we had to import malt barley to ensure we met customer demand.

Despite these issues, there were signs that the industry is poised for significant recovery. Our Agri-Products business started to pick up at the end of the quarter and our sales teams have been out in full force working with producers to drive sales. We have surpassed our fertilizer sales of last year and the activity in the fields is cause for optimism.

The moisture in the spring provided a good foundation for the crops; recent hot, dry temperatures begin to temper enthusiasm. Fortunately Mother Nature came through over the weekend and has delivered a good dose of rain to the majority of the dry areas requiring moisture.

The other issue that's come to the forefront is the appearance of grasshoppers. About half our market centres have hoppers. Farmers are closely monitoring the situation and are doing a good job controlling them with insecticide. The Pool is experiencing significant growth in the sale of insecticides as a result. The grasshoppers have not caused any measurable impact on the crop to date; however, their appearance has driven producers costs higher. With the application at the right time and at the right stages, producers can protect their crops. In addition, recent cool and wet weather should slow the hatching and feeding.

For the year ending July 31, 2003, we're expecting strong Agri-Products sales as evidenced by the activity in this, the final quarter; however, the lack of production from last harvest will mean a poor year for grain handling and the marketing division. That is simply because volumes drive earnings and two years of drought have dramatically decreased grain stocks.

The good news is that if we continue to receive timely rains, the outlook for this division in fiscal 2004 is good. Western Canadian farmers typically produce about 50 million tonnes of grain and deliver 30 to 33 million tonnes to grain handling companies.

For fiscal 2004, assuming normal growing conditions, farmers are expected to hold back about 10 percent of their delivery to replenish on-farm grain reserves. In terms of expectations for the year, we expect to see substantial volume improvements but the industry will not reach the full potential that would be realized from normal growing conditions until 2005.

The guidance that I provided you approximately one year ago still holds. In a normal year, the Pool can expect to handle 8 to 9 million tonnes of grain, of which approximately 60 percent is Canadian Wheat Board grain. With regular sales of $400 million in our Agri-Products division and anticipated earnings from our affiliates, the Pool on a consolidated basis can generate $115 million to $130 million in EBITDA, and cash flow ranging from $70 million to $85 million. These are strong numbers.

Here at the Pool we look forward to testing our leading grain handling system in a normal year. For the past two and a half years of drought, we have carefully managed our cost structure down. In fact, we've eliminated over 80 million in costs and the majority of those costs are sustainable. As we approach normal production levels, we believe in our system and geographical footprint. We've implemented productivity measures that have improved our competitiveness. Market share is expected to stabilize for those facilities operating in Alberta and Saskatchewan. With the inevitable consolidation by our competitors and the continued movement of railways to improve efficiency, we believe that the prospects for the industry are good.

This year will have its challenges. The Canadian Wheat Board is proposing to rollback the proportion of tendered cars on August 1 to between 15 to 20 percent for the 2004 crop year. The Board has only recently initiated industry discussions to that effect but wants to make the changes in time for the start of the new crop year. So far, few details are available but the issue is proving to be extremely divisive for the industry. A number of players who have not made the necessary capital investment would prefer to revert back to the allocation system because that system guarantees market share. The Pool wants to compete for producer grain. We need a level playing field and a regulatory and market environment that encourages economies of scale and competition. The Pool strongly believes that it's important not to push changes to the system through in the next four short weeks without proper consultation with the industry. We simply must give the tendering program time to work in a non-drought environment with normal volumes. This will allow the industry to assess the true value of tendering in what we all hope is a more normal crop year, and it also gives those companies who are now, who now oppose tendering, access to a much larger crop and significantly more cars through the regular allocation process.

I'd now like to provide a quick overview of the financial restructuring we recently completed. You'll note that we're not able to provide comparable financial data from previous periods since the statements were developed on different accounting bases. We developed a presentation in consultation with external auditors and the regulatory authorities. The financial reorganization gives the Pool a strong foundation and a manageable capital structure to move forward with confidence. No principal payments are required on the restructured debt until November of 2008. Regarding the 100 million term bank debt, we are not required to begin repaying that debt until October of 2004. Those repayments are extremely manageable, averaging 1.5 million per month, principal and interest. We can defer those repayments until October of 2005 in the unlikely event the industry suffers another year of drought. As a note, the Company did repay 9 million of bank debt during the quarter.

We have new operating lines that move with our working capital requirements, giving us the flexibility and funding we need to fully fund the business plan. The market place has reacted well to the $255 million convertible note that was issued as part of the restructuring. As of last Friday, approximately 41 million of notes had been converted to equity, reducing the cash interest payments that may become due in later years if the company meets certain financial thresholds. The majority of the convertible note has been treated as equity on the balance sheet based on the Company's right and ability to convert the notes to voting shares on maturity. At this point in time, the company believes that it will likely convert the notes in November of 2008.

Lyn will now take you through the comprehensive revaluation required under generally accepted accounting principals. Lyn?

Lyn Kristoff:
Thanks, Mayo. As Mayo indicated, the third quarter results fully reflect the Company's financial reorganization. We have accounted for the restructuring under the principals of comprehensive revaluation or fresh start accounting, using an effective date of January 31.

Fresh start accounting requires the revaluation of all assets and liabilities at estimated fair values. It also requires the elimination of the Pool's deficit. The outcome is a fresh start for the Company. We have disclosed all of the adjustments in the notes to the financial statements and I encourage you to review those notes in their entirety.

To summarize, goodwill and pre-operating costs are valued at zero. Pensions and other benefit plans were valued based on an assessment by an independent actuary. Fixed assets reflect the fair value based on anticipated future cash flows. Because of the fixed asset revaluation, the Pool's depreciation will decline to approximately 25 million per year. This is significantly lower than historical levels and will have a positive impact on future earnings of the Company.

The 150 million senior subordinated notes has been fair valued at 81 percent of their principal value, which was the trading value of the notes at the time of the assessment. The difference between the principal amount of 150 million and the fair value of 121.5 million will accrete, or increase, over the term back to the full principal amount. This will be recorded as a non-cash interest expense in our income statement.

The term bank loan of 100 million was valued at its full principal amount and equity value of 179 million was established for the consolidated balance sheet, reflecting management's estimate of the trading value of the Class B shares along with the estimated fair value of the equity component of the convertible note.

The convertible notes have been split into two components. The first component is the interest that may become due on the notes in 2006, 2007, and 2008, should the Company meet certain financial thresholds. This amount, or approximately 22 million, has been treated as a long-term debt on the balance sheet. This component will accrete, or increase, up to the amount of the interest payments that may become due in 2006, 7, and 8, through a non-cash charge to interest expense in our income statement.

The second piece is the equity component of the note, which was valued at 70 percent of its par value. The 30 percent difference will accrete over the life of the instrument to the principal amount plus accrued non-cash interest on that instrument. The accretion will be recorded as an adjustment to retain earnings. This accretion, while not impacting net income, will result in an adjustment to the Company's earnings per share calculation each quarter as required under generally accepted accounting principals.

To wrap up, I want to reiterate some of Mayo's thoughts as we look forward. We are facing substantial improvements in volumes and earnings in fiscal 2004, should the timely rains continue. Our ability to return to normal levels of shipments is dependent on production levels, the amount of grain left in on-farm reserves, ant eh Canadian Wheat Board's export program.

If this is the beginning of normal weather patterns, we will see strong agri-product sales and better results from our food processing entities on top of the obvious impact to our grain business.

We are poised for a significant recovery in 2004, but we will not reach our full potential until 2005 because of the grain held in on-farm reserves.

Colleen, we can now begin the question and answer.

<u>Colleen Vancha:</u>
Thank you, Lyn. Samantha, we will go to the question period now. I would ask the media to hold their questions until we've dealt with the requests from the market. Mayo, Lyn, and Fran would be then be pleased to take your questions. Samantha?

<u>Operator:</u>
Thank you. We will now begin the question and answer session. To place yourself into the question queue, please press *1 on your touch-tone phone. If you're using a speakerphone, please pick up your handset and then press *1. If your question has already been asked, you may press *2 to withdraw it. Please go ahead if you have any questions.

Your first question comes from Peter Fraser. Please go ahead.

Peter Fraser:
Hi, Mayo. With respect to your projection of the potential of 115 to 130 million of EBITDA for perhaps 2005, I wondered if you could break that down a little bit between the sectors.

Lyn Kristoff:
We don't provide our forecasts in that type of detail, Peter. You can look back to prior years by segments if you want to get some further background information on that.

Colleen Vancha:
I think 2001 is a good indication. It was the last year that was non-drought from the Company's perspective, so you can look at the breakout by segment in that area and do your calculations.

Peter Fraser:
Okay. So for example, agri-products did about 50 mill – 49 million and there was about 9 million as interest income, so, if I guessed 40 million for that number, and then you're saying the rest could be broken down between the grain handling and the agri-food business, and so on. Would that be fair?

Lyn Kristoff:
That's what you would have to do to do that calculation.

Peter Fraser:
Okay.

Ah, the other thing that I wondered is…could you just sort of describe in sort of general terms, your view of market share and the acceptance of the farmers of the new and restructured Sask Wheat Pool?

Mayo Schmidt:
You know, I think the key for producers is really in the end getting back to profitability in the challenges that we've had over the past couple years. Certainly, because of the difficult financial conditions that we experienced along with the issues such as drought and some of the sale of businesses in the last couple of years, producers have been through a lot of change with us. I think as evidenced by a 10 percent increase in market share in 2002 over that period of time that there certainly hasn't been any apparent impact

from the restructuring. We don't see anything today; we don't expect to see anything significant moving forward in the future. I think confidence levels are growing substantially, so I don't think we're going to see that there will be any impact. There could be a slight decline this year because over 90 percent of our capacity is located in Alberta and Saskatchewan where the drought hit last year. But that's simply because there's less grain available in those areas as opposed to Manitoba, which was not impacted by the drought. So we believe there's a good opportunity to move past the 23 percent market share as production returns to normal.

Peter Fraser:
Thank you.

Mayo Schmidt:
You're welcome.

Lyn Kristoff:
Peter, can I make one comment on your first question about the agri-products business? One of the changes that we've made to the company since 2001 is that Sask Wheat Pool no longer provides the direct financing for our producers. In prior years, the financing would have appeared in the EBITDA line as well, if you go back to the 2001 year. So be sure to take that into account when you're preparing your models.

Operator:
Our next question comes from Gene Vollendorf. Please go ahead.

Gene Vollendorf:
Yes, I just wondered if you could expand a little bit on the grasshopper situation. Give me a sense if it's unusually high this year – I'd just like some colour there please.

Mayo Schmidt:
You know, I think when you say "unusually high" it's a year that is probably comparable to other very difficult years. It's primarily focused, if you look at Regina as maybe a central area, the further you go north or further you go south it tends to dissipate and it primarily is located in the southern part and into southern Alberta. It's tempered by the change in weather we've seen in the last week. It's certainly cool outside and even a bit damp. That will slow the maturing and, I guess, production of more grasshoppers.

We've seen very, very, brisk sales in products that, control the hoppers, and so we don't believe that it's going to be a material impact to production, - at least with the information that we have today. Spraying the parameters of the field does keep them out of the field and we're seeing a lot of that happen out in the countryside.

Gene Vollendorf:
Do you have any sense what the cost of production would be? The increase?

Mayo Schmidt:
I can't give you any guidance on that because the hoppers, in a sense, whether you look at Regina as you go north, you know, there's significantly different levels of, population, so it's really not predictable and as we distribute the product from market centres, it gets dispersed out to the country side and some people simply aren't spraying as they don't have problems. So it's such a diverse geographical area it is not possible to give you any guidance there.

Gene Vollendorf:
Okay, thank you. I just wanted to confirm, just back to the prior question, you had estimates of about – is that right – $110 million for 2005 EBITDA?

Lyn Kristoff:
115 to 130 is the direction we're providing.

Gene Vollendorf:
Okay. And what about, 2004?

Lyn Kristoff:
Well, the difference for 2004 largely relates to the building of the on-farm reserves again. If you look at the grain, the volume of tonnes, 8 to 9 million tonnes, - and our Company earns approximately $20 per tonne, that'll give you a range with the $20 million number on the grain business itself.

Gene Vollendorf:
Okay.

Lyn Kristoff:
On Gross Margin

Gene Vollendorf:
Okay. But 8 to 9 is a normal year, is that not correct?

Lyn Kristoff:
Right. And so, if they hold back 10 percent –

Gene Vollendorf:
10 percent. Okay. Okay, thank you.

Operator:
Your next question comes from Stephen Chant. Please go ahead.

Stephen Chant:
Okay, a couple of questions: You've mentioned cash flow of 70 to 85 – I'm assuming that's in 2005 and, is that before or after capex and can you just give us an idea of what you expect your capex to be in the next year or so?

Mayo Schmidt:
Yeah, you're correct in that number.   Secondly, normalized capex can be anywhere between $20 to $30 million over the next five years on an annual basis. We've substantially reduced that capex over the last couple of years, certainly in the situation that the company found itself, in drought and everything, but, I would say normalized is $20 to $30 million and that cash flow that we've give you, or provided as guidance, does reflect, prior to capex.

Stephen Chant:
And that's obviously after working capital?

Lyn Kristoff:
No, that would be before.

Stephen Chant:
Oh. That would be before working capital?

Lyn Kristoff:
Yes it would be.

Stephen Chant:
Okay. then what would you be using that cash flow for? How much do you think you'll be paying down your bank debt? Or publicly traded instruments?

Lyn Kristoff:
Well we have the payments that Mayo referred to in his opening comments of a million and a half a month.

Mayo Schmidt:
A month, yeah.

Stephen Chant:
Okay. I apologize for that. Uh, okay. That's my questions. Thank you.

Lyn Kristoff:
Thank you.

Operator:
Once again, if there are any more questions, please press *1 on your touch-tone phone.

Lyn Kristoff:
Operator, if there are no other questions form the market, we can take questions from the media.

Operator:
Yes. We have a question from Jim Smalley. Please go ahead.

Jim Smalley:
Good morning. I must apologize, I came in a bit late, ah, if you could in 30 seconds or less, Mayo, give me a nice summary as to actually the reasons behind the loss and what your projections are for the future.

Mayo Schmidt:
Ah, Jim, it would probably be helpful to the people we have on the phone if you want to give me a call afterward, but very simply put, and this is consistent with our past discussion is the drought has had a substantial impact. We certainly look at the third quarter as the weakest for the industry. We all know there's been substantial rainfall and a recharging of

the moistures and we certainly expect that we're going to have better results going forward. We're seeing brisk sales in fertilizer and chemicals, ah, but beyond that, why don't you give me a call and I can give you some guidance. I will tell you that it's our belief at this time as we look toward next year with normalized conditions that this Company has the opportunity to move back to profitability on a net income basis.

Jim Smalley:
From what I heard it sounds quite sizable too.

Mayo Schmidt:
I can't comment on that. Thanks, Jim.

Operator:
Our next question comes from Adrian Ewins. Please go ahead.

Adrian Ewins:
Hi, Mr. Schmidt. I believe that during one of your responses here that you made reference to a – I thought you said a 10 percent increase in market share…I wasn't clear over what period you were talking about or if I understood that correctly. Could you talk a bit more about that market share? Where it stands, where it's been, and where you see it possibly going now that you have a lot of your problems hopefully behind you?

Mayo Schmidt:
What we've talked about over the last two years is a 10 percent increase in market share, which is really a movement from around 20 percent to around 23.5, 23.7. Ah, that is historical now. Looking forward, we see some modest increase over time in that market share going forward.

Adrian Ewins:
You're also saying that this year you're currently facing problem because you don't have much representation in Manitoba and that's where there was less of an impact from the drought. Do I understand that correctly?

Mayo Schmidt:
We have four inland terminals in Manitoba and there's been a small impact to our market share as a result of the facilities being in Manitoba. Keep in mind that the primary area of drought was Saskatchewan, so as we look at the balance, you know, it's a bit skewed in terms of how you deal with

market share. Some of our competitors for example, who have less facilities in Saskatchewan would have been less impacted by the drought and so obviously it would also affect their market share in terms of market share is valuede basis Western Canada.

Adrian Ewins:
And one final question in that area then. The tendering discussions that you were referring to – how significant is that to your market share? Have you been able to, or do you think you could use tendering if it was at 50 percent, or even unlimited tendering as I think you've asked for in the past, to significantly increase your market share and conversely, if tendering is rolled back, does that hurt your ability to go after market share?

Mayo Schmidt:
I'm going to ask Fran to answer that.

Fran Malecha:
Using tendering at the 50 percent level and further, if it goes that way, closer to 100 percent, that will allow us to influence our Wheat Board market share. As far as the discussion with the Wheat Board on going backwards, there's just too much uncertainty in what they've proposed at this time to determine the impact that that will have on our market share, or ability to influence market share going forward.

Adrian Ewins:
Okay. Thank you.

Operator:
Our next question comes from Stephen Chant. Please go ahead.

Stephen Chant:
Hi. Have you analyzed your debt position in terms of seasonality going forward? What you think your high bank debt number would be and your low bank debt number would be, given the seasons, because I know it does fluctuate seasonally.

Mayo Schmidt:
Let me give you a little bit of a view as we look at it. One is that when we constructed our financing we also constructed for seasonal needs; the bulge in those particular two periods of the year. Secondly as we look at today our

operating facility, which is also including the securitization, we're at approximately $123 million. Our other debt would be in the area of about $58 million, and the bank's senior term loan, today, at about 91, so total debt would be about $396 million of which 123 million of that would be short term, and 273 long term, so, as you can see, we substantially affected our debt and certainly, as we look at our current capital structure, we look believe the process that we've gone through has been very beneficial to the company.

Stephen Chant:
Okay. How close are you seasonally though to your sort of high-debt mark? When does the bank debt peak?

Lyn Kristoff:
Well our (operating) line is 240 million.

Stephen Chant:
Uh huh.

Lyn Kristoff:
And we are, and with those all just over and above at certain peaks, we've got the $35 million bulge and at the end of April, we were at that $120 million range of utilization on that. As we, you know, go through the fall we'll be buying more grain and we will move up to the bulge, but then it'll come back down again.

Stephen Chant:
Yeah, I know. I understand. Okay, thank you very much.

Operator:
Our next question from the media comes from Jack Dawes. Please go ahead.

Jack Dawes:
Yes, hi. Mayo, I guess, partly my question was on tendering and I think it was partly covered…let me just ask you this: Are you happy with the rollback in the tendering as it's been proposed?

Mayo Schmidt:

Well, I think you're correct in saying it's been proposed. Our view, not only for the company, but for producers and also for Western Canada is that it is imperative that we have an opportunity as an industry, farmers, grain companies included, to test tendering in a normal crop environment. As I look back at the $40 million of savings that producers have received, I look back and say I can't imagine – and that was based on 25 percent tendering – I can't imagine why we would go from 50 any where lower. In fact, I think that that would be stimulus to go higher because both the producers and the grain companies funded by freight savings are participating in massive savings, and it's just, in my mind I just cannot think of a reason why we would go anywhere other than 50 percent or higher. In fact it's our view from a financial point of view for companies and farmers that 100 percent tendering would benefit everybody and everybody has a level playing field, the economics work, the efficiencies work, and the savings are passed back through the process and we've seen that, it's measurable, it's been quantified, and it's been spoken to many times.

Jack Dawes:
On the question of the debt restructuring, and certainly I'm not a person who knows how to read or understand financial statements, but in your opening statement you say you're relieving the Pool of the heavy burden of debt, but then when I look, for example, at just some raw numbers under your, your long-term debt for example, I see that increasing by about 15, 16 million or so. Could you kind of put some context to that for me?

Mayo Schmidt:
Sure. Let me go back through that again for you. Keep in mind that 255 million of our debt is now equity on the balance sheet, which is the convertible subordinated note which the company at our option will likely be converted to equity in 2008. There are no principal payments required on the restructured debt until 2008. So today, both long-term and short-term debt, we're down to 396 million. So that's down substantially over the last couple of years.

At one time, total working capital, long-term debt, all in, the company was using about $1.38 billion in funding to run our operations, and we're less than half of that now, of which less than 400 of it is classified as debt.

Jack Dawes:
Good. Thanks for now.

Operator:
Our next question from the media comes from Roberta Rampton. Please go ahead.

Roberta Rampton:
Hi, Mr. Schmidt. Who or what body ultimately decides, makes the decision on what level tendering will be at and just a secondary question to that, how is your company going to sort of put your view forward as in the time period between now and new crop year?

Mayo Schmidt:
Well there's, there's really three participants in the tendering discussion. One is the industry, which would include farmers and grain companies of course. There's discussions going on now with the Canadian Wheat Board and the grain industry, there's also some discussions with government although I think the government would like to see the industry with the Canadian Wheat Board come to some form of resolution.

There's some question that if we can't come to a resolution that it would move into a different process where a facilitator would come in and try and assist the two parties and come into some reconciliation.

I can tell you that, in terms of our actions, that our producers are calling. We have substantial calls everyday asking about tendering and why in fact there is any intention of rolling back the tendering below 50% when in fact there's been 40 million dollars in savings that have gone to producers through the pool account. They simply don't understand how it's going to improve by going from 50 percent down to 20 percent. It's just from an economic point of view doesn't make sense to them; so we're having a lot of conversation in that area. So we're very simply in an education process. We've got 70,000 members, 35,000 of them are active farmers and of the 35,000 we're receiving substantial inquiries as to this entire debate.

Roberta Rampton:
When just, a couple follow-up just very quick follow-ups on that, on this point the 40 million dollars in savings that you quote, where is that figure coming from?

Mayo Schmidt:
That was from last year and those were industry numbers as well as the Canadian Wheat Board numbers. The year-to-date number for the current crop- producers saved about 21.5 million through the first 9 months of the crop year.

Roberta Rampton:
And that's savings relative to what would happen without tendering or it?

Mayo Schmidt:
Right, that's the savings the grain companies pass back to the Wheat Board to acquire the tenders and then that gets distributed through the pool accounts to the farmers.

Roberta Rampton:
And at what point would a facilitator come in, I mean what, what deadline does the industry and the Wheat Board for sort of coming to a conclusion on this?

Mayo Schmidt:
Well there was a hope that by the end of July we'd come to some reconciliation. It's not clear at this time with the details that are available what date it will be reconciled. The original MOU was a year before the rules were clear and discussed and agreed upon before most of the companies begin tendering in the first place. So, it's been an evolution in regard.

Secondly, I would suggest for some a look or a reflection on the numbers that you look to the Canadian Wheat Board website where I believe they posted their 40 million dollars that they help acquire for producers through the tendering process.

Roberta Rampton:
Thanks. Lastly, just briefly, is Saskatchewan Wheat pro lobbying the federal government to, I guess, encourage the Wheat Board and other players to keep 50 percent or more tendering?

Mayo Schmidt:
We're encouraging everyone to look at 50 or up to 100. Our view is, is that from a financial and economic point of view for producers and for the

industry that the maximum amount of tendering is certainly measurable and it would be the best for all parties and all participants. Certainly, we don't want to see going backwards at this time right now but we are talking to politicians to give them our views and also all the inquiries from the countryside.

Roberta Rampton:
Thanks.

Mayo Schmidt:
You're welcome.

Operator:
Your next question comes from Adrian Ewins. Please go ahead.

Adrian Ewins:
It's kind of a tendering discussion for a couple of minutes. The reason that some groups are opposed to tendering as some smaller grain companies is that they say that it allows the larger companies over the last couple of years have put very large and aggressive bids on to gain market share, which has then really hurt small companies that don't have terminal facilities who are unable to compete and some of them have said that inline terminals and small grain companies is a prospective actually being driven out of business. Do you think that that's a fair argument or is there anything to that or how would you respond to those kind of concerns? And the other point that they often make is that the, that if focuses even more on a centralized system and it's smaller elevators simply don't get service the more tendering there is.

Mayo Schmidt:
Well, you know, I guess I'll make a couple of points. I think what's interesting is the small companies you refer to were in favour of tendering and in fact they were the first group to participate in tendering for over a year. I guess quite frankly, I view it as I don't think it's the right structure to have tendering adjusted to fit a certain group or fragment of the industry. I think what the industry's looking for is a level playing field and I don't think that they look to governments or any other agencies to pick winners or losers in the industry by adjusting every time somebody feels that they're not able to compete. We certainly all have the ability to invest in the industry. I would suggest that as we look at our margins they were up in the third quarter. We haven't spent, on an average, substantial dollars in tendering, in

fact, our market share of tendering has been down this year as we've chosen to tender somewhat less simply because of the crop available to tender for.

You know and I think the other point that would be important to make is, is you know their concern with tendering is coming at a time where exports were down about 55 percent and production down almost 50 percent. I don't know how they can make a judgment based on what their allocation would or wouldn't be or their ability to tender would be when there's less than half a crop to handle.

So I think that we have a group that is jumping to a conclusion before they really understand the full impact. I think producers from our point of view are largely in favour of tendering as it provides an economic benefit to them and I think it's clear over the last couple of years it does. Because it is 40 million that's been paid by the industry through freight savings and through efficiency. But there's also around 57 million dollars that's been paid to producers in terms of truck incentives. So when you add those two together that's a substantial amount of cash that's going to producers that comes entirely through the freight savings that companies are making.

Now I will say that there are days when tendering, the numbers probably are pretty high. You might see a 12 dollar, 14 dollar tender, but you have to keep in mind that when there's a contract call or the system calls for grain and the grain moves in. It isn't necessarily a given that the grain will move back out and the companies have to have a process where they can take certain actions to see that their facilities aren't half full of grain for an entire season because we don't manage facilities based on storage income, we built them based on through put. So it's, it really is a safely valve for companies to be able to take certain actions to get grain out of the system that they simply cannot afford to carry in the system for extended periods of time.

Adrian Ewins:
Okay and one final second. The 40 million dollar and the other numbers that you've been throwing around, I think when the board puts those numbers out they don't specify tendering per say, they put it in the context of overall transportation system savings, which include a couple of other things. Are you talking specifically about tendering per say?

Mayo Schmidt:
Yeah I think that and again, if you look through the website, what I believe they say is tendering and penalties and associated fees.

Adrian Ewins:
Right.

Mayo Schmidt:
So, you know, I guess one I would suggest that the industry is not throwing those numbers around. Those are measurable numbers put out by the agency that in fact is charged with keeping track. They put that money through the pooled bank accounts. So I think it's very much a qualifiable number.

Adrian Ewins:
Uh hmm. Okay. Thank you.

Operator:
Your next question comes from Jim Doak. Please go ahead.

Jim Doak:
Yes, just some context on the value of your assets. I know you've done a fair valuing of the balance sheet assets. What about the transaction values? If there have been any transactions on people purchasing grain elevators or on paying the sum amount per annual tonne through-put for the capacity?

Or secondly, what would the replacement costs of the assets be, in other words, what would the per share value of Sask Wheat Pool be if you had to build the assets in today's market with today's construction costs.

So these two question on two context for the evaluation of your assets.

Lyn Kristoff:
Well, the value of the assets have been based on their estimated future income streams and the cap ex that'll go into those, into those years. When you do go through a comprehensive reevaluation the first side of the equation is to look at your equity value and your debt value. As such the market is giving you the long-term value of your fixed assets or your construction of facility through the analysis that is done on the value of shares and the value of debt.

Jim Doak:
So there will be no transactions or independent people at arm's length that have bought and sold the grain elevators for let's say 12 months that you can reflect on and secondly, what would it cost today to build your assets, build them new?

Mayo Schmidt:
Well I think there's probably two things you're looking for. One is what sales have taken place in the industry. That's not always clear so what people do get, people don't tend to publish the values they sell facilities for and frankly each facility based on the competitor across the street and how many competitors the draw area, the geographical differences can be substantially different. Some facilities have potential ethanol plants going in, some have canola crushing plants close to them, some have three maybe one competitor in the area. So, it's not possible to give guidance on each facilities' worth without looking at the, you know, 250 facilities across western Canada.

Jim Doak:
Okay.

Operator:
Our next question comes from Scott Smith. Please go ahead.

Scott Smith:
Yeah Mayo, just a couple of questions: If there was no tendering how do you believe that would affect your market share?

Mayo Schmidt:
I don't see tendering as being a substantial market share issue. I mean we predict that we'll be competitive in tendering and that they'll be a, you know, certainly modest growth to market share. Because of the level of competition, a number of competitors out there, I don't see anyone having the ability to substantially affect our market share to make any type of dramatic changes to anybody going forward in the future.

Scott Smith:
With or without tendering

Mayo Schmidt:

Well, with or without tendering. Secondly we still have the largest market share in Saskatchewan where over 50 percent of the grain is grown. The two differences you have to look at, or really three is, one is that the efficiency savings is passed back through freight savings from the railroads would not be available. Second is we'd be into an allocation process, which would not allow anyone any ability to affect their market share in any substantial way going forward simply because if you're allocated on a particular train run, 50 cars is what you get and if buy 100 hundred cars worth of grain your going to load up 50 cars worth.

Scott Smith:
So effectively, I guess I now have two questions: How would it affect your margins and secondly, maybe I'm making an observation I just want you to confirm it, if they move to no tendering is there a transfer of cash from the producer to the rail company because the rail company didn't have to pay the incentives, which you may not have passed through to the producer?

Mayo Schmidt:
Well, I mean, maybe I'll give you a different way of looking at it.

Scott Smith:
Okay.

Mayo Schmidt:
The railroads provide a freight savings associated with loading 100 car trains - the companies are more able to do through tendering because we can either buy blocks of 50 car, 100 care quantities or we can marry up special props with Canadian Wheat Board grains to thereby increase the freight savings of which part of or majority of which is shared with the producers, so the companies keeps some, the producers keep some and the railroads discount their rates to allow that to happen.

The other thing is one of the probably the more substantial things will affect market share and profitability for Western Canada is we still have over-capacity and there's a substantial number of wooden older antiquated facilities that are open and running that are not as efficient and that don't have access to the freight savings that over time will close and the sooner the better for the health of the industry.

Scott Smith:
But not necessarily the health of the producer

Mayo Schmidt:
I don't know that it affects the producer. In other words if you've got a wooden facility loading 5 cars and they have to pay 6 dollars and 50 cents higher freight, I don't how that hurts the producer if that facility's closed. Keep in mind that the industry paid incentives and total fees about 57 million dollars to producers to move their grain to larger facilities that can build 100 car blocks.

Scott Smith:
Okay, thank you.

Mayo Schmidt:
You're welcome.

Operator:
Our next question comes from Bruce Johnstone. Please go ahead.

Bruce Johnstone:
Yeah, thanks. Just to refresh my memory, you mentioned that the Wheat Board had put forward a proposal to basically roll back tendering was it to 20 percent or by 20 percent, what was, exactly was that again?

Mayo Schmidt:
They had put a proposal forward to the industry to roll it back to the 15 to 20 percent range.

Bruce Johnstone:
Okay and I was just looking at a DBRS report on the grain industry, which suggests that tendering's been a, that they call a major failure for the grain industry, I guess saying you know in the first year that there was very little participation and there was intense participation and competition resulting in aggressive bids and few profits for most participants um, uh, what would you say to that analysis?

Mayo Schmidt:
I think you have to go back to looking at tendering over the past year and a half in a drought environment and I think the earnings are impacted more by drought then by tendering and I think given our assets we manage the margins and are happy with tendering.

Bruce Johnstone:
Just one more thing on the DBRS report, it does say that you know that since the pool has restructured it's reschedule of debt it could problematic for other players in the industry, but it says that the recovery of the pool could be limited by restrictive bank lines, it requires substantial profitability improvement but will be aided by the most modern, potentially most efficient green-handling system in Canada and one more thing, one major uncertainty of the impact of the restructuring will have on it's relationship with farmers, many of whom who have lost money in the reorganization; Any thoughts on that Mayo or Fran?

Fran Malecha:
You know first of all, the business plan that this company constructed has been fully funded by the lenders, further supplemented by a number of things that we've gone over today one is, deferrals of any interest payments, deferrals of principal payments, no payments unless the company hits certain financial returns and even more substantive is the convertible subordinated note, which is 255 million of principal plus the accumulated interest that is not required to be paid by the company until 2008, this at the company's choice if it wishes to pay or convert and we've stated that it's likely that the company would convert that debt and today we're carrying that as equity. So there aren't, we simply don't have a restricted working capital base and I can tell you that I believe and I think it's clear to us that farmers have not lost value in the business. Now certainly individuals have purchased class B over a period of time have been affected in this process, but anybody that's had deferred payments, anybody that's had product that they purchased have have received 100 percent of their value whether it's in cash or in product over the past years. There's been nobody that's been affected other than certainly class B shareholders but I think the answer there is simply that the bondholders and the banks participated in a consent to restructuring and for the company to get in the position where we could convert that to equity. There needed to be participation from the class B shareholders. So that was, everybody really shared in the process.

Mayo Schmidt:
I would say that we've had strong seasonal sales so I would suggest there's very good support from farmers because business is very brisk for this company out in countryside.

Bruce Johnstone:
Thanks.

Operator:
Our next question comes from David Smith. Please go ahead.

Greg Bulland:
Hi, it's actually Greg Bulland. You stated that you wanted to convert the convertible notes that matured in 2008. Do you plan on addressing the share structure in advance of that date given that that's a prerequisite to burning the notes?

Mayo Schmidt:
First of all, what we said, just to be clear is that the company has said it's likely that the company would convert in 2008, considering already of the 255 already 41 million is converted to class B non-voting shares. As far as merging those or creating a voting share that's not something that the company has contemplated on this time and at some point we will and would have to address the voting structure, especially as we get to 2008 because part of the conversion does require that the delegates would meet to approve the process and that we would continue as a federally incorporated entity having a single class of voting common equity and it would be a listing of new equity on the TSX or other nationally recognized exchange.

Greg Bulland:
And on that note, currently there's a 10 percent restriction on the number of shares that people can own and that I guess refers to the public float of the trading common shares and given that the bulk of the market cap of the company is represented by the convertible notes and it's a bit of an impediment for institutional shareholders or share ownership, do you anticipate addressing the 10 percent cap as well in order to facilitate access to capital markets and have a wider shareholder base?

Mayo Schmidt:
Well actually, thanks for the comment, it's not a point that, that we've missed. It's not something that we're considering at this moment but maybe at some point in time it would be something that the company would consider.

Greg Bulland:
Okay, cause it's quite, it's really redundant given that they're non-voting shares and I guess for a pension fund or an institutional asset manager to buy a significant position of the stock right now they'd be limited to you know 10 million shares or 3.7 million dollars worth, which I is not going to be adequate to create an institutional shareholder base.

Mayo Schmidt:
Your quite correct and we're fully aware of that and we're going to be looking at those issues in the near term.

Greg Bulland:
Great, thank you.

Operator:
Your next question comes from Roberta Rampton. Please go ahead.

Roberta Rampton:
Hi Mr. Schmidt. In the past you've talked about a, just going back to competition in the industry, in the past you've talked about the need for various industry players to sort of find joint ventures or find some sort of way to consolidate within the industry and I guess I'm just wondering whether, what you've seen in recent months and what you see going forward.

Mayo Schmidt:
Well I can speak from our point of view as we have a number of relationships whether it's in the grain handling or oat milling business where we've constructed multiple year contracts that we think are going to endure over time. One of our relationship is, has been and very successful is with Totefor(ph) International, is an international marketer of products on our behalf. We've had a very good relationship with them. Other companies, whether it's Ralston Foods, General Mills and many other companies we've had relationships with.

We also have the benefit of relationships with countries that don't have port terminals, where we're handling grain on their behalf through port terminals, which creates a sub-standard for the company and really fully maximizes our facilities and as we look at one of more important assets, West Coast Vancouver, we believe we're going to maximize the through-put through that facility and we'll be running it at maximum output so we're very pleased by that. Some of the cap ex that we've talked about the 20 to 30 million dollars is going to go to Vancouver to continue to keep that facility operating at increasingly higher levels.

So we've constructed a number of relationships. I certainly believe that it's going to be important for the health of the industry that we see further consolidation in terms of closure and antiquated facilities so that everyone can take full advantage of the freight savings, I don't think that at the end of the day all the companies continuing with the capacity we have now or the structure we have now having to count on substantial crops for profitability is something we'll endure over time and the fact is the entire industry, whether you look in the world or in the U.S., other marketplaces, is consolidating rather rapidly and frankly we've gone from 5,000 elevators in Western Canada one time down to 1200 down to probably down to less then 300 today. So there has been massive consolidation it's just not complete yet.

Roberta Rampton:
Thanks very much.

Mayo Schmidt:
You're welcome.

Operator:
Your next question comes from Bruce Johnstone. Please go ahead.

Bruce Johnstone:
Sorry, just on the issue of the 10 percent ownership cap, can you tell us a little bit more detail. What your plans are for that.

Mayo Schmidt:
Bruce what I think I mentioned earlier. We're not contemplating today any change, I think the gentleman spoke very carefully, articulated the issues and

the company understands and appreciates those issues and I think the marketplace can appreciate what the company not only been through over the last couple of years but even as you look at the January-March period this company went through a massive change and really was fresh start and counting this really is a new company with all sorts of considerations to make going forward and opportunities and possibilities. We substantially addressed the debt issue, we've gotten the liquidity issues all taken care of, so the company has a fully funded business plan and I think is what we're hearing from suppliers and the marketplace and our partners is that they're very pleased and happy for the company and the outcome we've received through the changes we've been through and I think as you look at normal crops and what we've given as a potential for the company in terms of earnings, it's a rather substantial turnaround compared to where we've been over the last 24 months.

Bruce Johnstone:
So certainly there's no intention immediately or in the near future to look at to removing that, that cap?

Mayo Schmidt:
I would say we're not contemplating at this time but I think as the gentleman clearly articulated there really isn't a standard effect in removing the 10 percent because the individuals would have a class B non-voting share regardless, they can simply own more then 10 percent of the class B of non-voting, which allows for the larger participation of institutions that would like to move more dollars around and have more liquidity.

Bruce Johnstone:
So they would not have any and affect on the control or ownership of the, of the voting ownership of the company.

Mayo Schmidt:
No that's correct, at this time class B is non-voting. I would refer you to 2008 in the likelihood that the company would convert, would merge those two classes of shares and make one class, which would be a voting share.

Bruce Johnstone:
Thank you.

Mayo Schmidt:
You're welcome.

Operator:
There are no further questions on the phone lines.

Colleen Vancha:
Thank you very much. I want to thank everybody for participating today. We will have posted on the website a playback number that you can refer to if you'd like to re-listen to the call and very much for your interest in the pool and we look forward to speaking to you again. That's it.

Operator:
Thank you. This concludes today's conference call. Please disconnect your lines and have a great day.