



**1ST QUARTER REPORT – OCTOBER 31, 2003**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**HIGHLIGHTS**

- Fiscal 2004's first quarter cash flow and EBITDA improved significantly over the previous year's first quarter. The Pool generated EBITDA of \$7 million in its first quarter compared to \$1.2 million in the first quarter of fiscal 2003.
- The company managed significantly higher grain deliveries and agri-products sales volumes in the first quarter while slightly lowering operating costs, a reflection of its commitment to productivity and efficiency.
- The Pool secured a long-term strategic alliance with WestBred LLC that will provide Pool customers with high-quality durum seed varieties in demand in Italy.
- The Pool secured a marketing arrangement with International Grain and Services, a subsidiary of Barkley Seed, to market the Pool's proprietary AC Navigator durum and future durum varieties into the high-demand markets of Italy.
- During the first quarter, \$4.35 million of par value convertible subordinated notes were converted into 9.7 million Class B shares. An additional \$5.2 million of convertible notes were exchanged in November, bringing total conversions since March 14, 2003 to \$59.7 million or 23% of \$255 million of convertible notes issued during the Pool's restructuring.
- At October 31, 2003, there were 181.8 million Class B shares outstanding. At November 30, 2003, there were 193.4 million shares outstanding.

**Financial Statement Presentation**

The Pool completed a financial reorganization effective January 31, 2003. The restructuring has been accounted for using the principles of comprehensive revaluation (fresh start accounting) as required by Generally Accepted Accounting Principles (GAAP). As a result of the financial restructuring, the Pool became a new reporting entity with a new opening balance sheet effective January 31, 2003.

The balance sheet is presented on a post-restructuring basis as at October 31, 2003, and July 31, 2003. Comparative period balance sheets are no longer relevant because they were prepared on different bases.

The company's consolidated earnings and retained earnings statement and consolidated statement of cash flows include fiscal 2003 first quarter results for the three months ended October 2002 prior to the restructuring along with the three month results post-restructuring for the first quarter of fiscal 2004 prepared using the principles of fresh start accounting. As a result, amortization, interest and net earnings are not comparable in the two periods.

## **SUMMARY OF CONSOLIDATED RESULTS**

Sales and other operating revenues for the first quarter of fiscal 2004 were \$303 million, which compares to \$333 million in the first quarter of the previous year. The sales results for both periods reflect the tariffs received by the Pool on Canadian Wheat Board (CWB) grain sales, as opposed to CWB gross billings as required by a new Canadian Institute of Chartered Accountants (CICA) standard regarding revenue recognition that was implemented for the 2003 fiscal year. The results reflect a strong sales recovery by the Agri-products segment in the first quarter, which was more than offset by lower grain shipments and sales declines in the Agri-food Processing and Other segments. The stronger Canadian dollar also had a negative impact on sales prices in the Grain, Agri-food Processing and Other segments.

Sales for the quarter, net of cost of sales and operating costs, were \$19.8 million, a 49% increase over the previous year's first quarter. The improvement reflects significantly higher grain handling margins due to better quality crops and the Pool's efforts to attract and ship higher margin export grains. The Agri-products segment also generated margin improvements in all major product lines. Overall, operating costs tracked slightly lower than the prior year's period.

Earnings before interest, taxes, depreciation and amortization, or EBITDA, were \$7.0 million for the first quarter, compared to \$1.2 million in the first quarter last year. Last year's results also included a \$4.6 million recovery of grain volume insurance. All segments, with the exception of the Agri-food Processing segment, showed improvements. The decline in Agri-food Processing EBITDA was directly related to Prairie Malt and the poor quality barley crop in 2002, which negatively affected that company's operating results.

Interest expense of \$10.3 million was recorded during the quarter, illustrating the Pool's lower-cost capital structure resulting from its financial reorganization. Interest costs for the period included \$2.5 million of non-cash accretion associated with the senior subordinated notes and debt component of the convertible subordinated notes. Interest costs in the first quarter last year were \$13.1 million and included \$2.3 million of non-cash amortization.

Amortization for the three months ended October 31, 2003 was \$6.5 million approximately half of that recorded in the comparable period last year. The decline is the direct result of the Pool's restructuring and subsequent fair value assessment of property, plant and equipment at January 31, 2003.

Earnings before interest and taxes, or EBIT, for the first three months of fiscal 2004 were \$0.5 million, up \$12.3 million from the first quarter last year when the Pool reported a loss before interest and taxes of \$11.8 million.

For the first quarter of fiscal 2004, the Pool's loss before taxes (or EBT) was \$9.8 million. In the first quarter of fiscal 2003, EBT was a loss of \$24.8 million. The net loss for the first quarter was \$9.8 million this year. The net loss in last year's first quarter was \$15.6 million.

The loss per share for the first quarter of fiscal 2004 was \$0.06 per share based on a weighted average number of shares of 177.5 million and \$0.08 per share after accounting for the accretion of the equity component of the convertible subordinated notes. The loss per share in the first quarter of fiscal 2003 was \$0.42 per share based on a weighted average number of shares of 37.4 million.

## SEGMENT RESULTS

### *Grain Handling and Marketing*

The Pool's Grain Handling and Marketing segment shipped 1.4 million tonnes of grain and oilseeds in the first quarter of fiscal 2004, compared to 1.5 million tonnes in the first quarter of last year.

Industry shipments for the period were up 22%. For the Pool, shipments of the six major grains remained on par with the first quarter of fiscal 2003. Canola shipments rose 27%, Canadian Wheat Board shipments were similar with the previous year's quarter and feed grain movement declined significantly.

Slower movement and congestion in the Pool's pipeline early in the quarter was due primarily to a slow start to the CWB export program. In addition, lower volumes available through tendering and higher tendering discounts by the industry influenced the Pool's decision not to participate in the tendering process to the fullest extent. As a result, the Pool took advantage of storage opportunities to maximize its future earnings potential.

Producer deliveries into the Pool's primary elevators rose 18% relative to the same quarter a year earlier. The Board/non-Board split was 61:39 in the first quarter of fiscal 2004, compared to 56:44 in that quarter of fiscal 2003. The change reflects the lower proportion of feed grains managed by the Pool due to a shift in focus to higher-margin product and an increase in the 2003 crop quality.

Total port terminal volumes at the Pool's wholly owned export facilities were 1.1 million tonnes in the first three months of this fiscal year, more than double the volumes through owned port facilities in the first quarter of fiscal 2003. The Pool's Vancouver terminal was running at full capacity for the majority of the first quarter. The increase in volumes reflects stronger port terminal receipts as volumes recovered at Vancouver following a labour disruption at the port during the first quarter last year, and a larger CWB export program through Thunder Bay.

Prince Rupert Grain, the Pool's port terminal affiliate, re-opened on October 1, 2003. Volumes through this facility were down for the first quarter because of the late opening. As well, unusually high volumes flowed through this facility in the first quarter last year due to the labour disruption at Vancouver.

	<b>F2004</b>	<b>F2003</b>	<b>Increase/ Decrease</b>
Primary Elevator Receipts	<b>1,633</b>	<b>1,387</b>	<b>18%</b>
Primary Elevator Shipments	<b>1,421</b>	<b>1,535</b>	<b>-7%</b>
Terminal Operations			
Vancouver	611	88	594%
Thunder Bay	453	393	15%
Share of Affiliates	21	121	-83%
<b>Total Terminal Operations</b>	<b>1,085</b>	<b>602</b>	<b>80%</b>

The Pool's pipeline revenue per tonne strengthened substantially during the quarter compared to the first quarter last year. Better crop quality, stronger receipts and a focus on managing profitable market share were the primary factors for the improvement. The Pool expects margins will average in the range of \$20 to \$23 per tonne for fiscal 2004 year, a substantial recovery from fiscal 2003, when margins averaged \$15.50 due to poor crop quality that led to a proportionately larger percentage of feed grain shipments in that year.

EBITDA from this segment was \$12.7 million up 52% from the \$8.3 million earned in the same period a year earlier. This is nearly three and half times the EBITDA earned in the first quarter of fiscal 2003 after excluding a \$4.6 million recovery of grain volume insurance included in last year's results. EBIT for the quarter was \$10.3 million after \$2.3 million in amortization costs. In the first quarter of fiscal 2003, EBIT was \$0.8 million after \$7.6 million in amortization expense.

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

The Pool's Agri-products segment generated sales of \$59 million, a 33% improvement over the previous year's first quarter. Stronger fertilizers sales and margins in the Pool's retail operation were recorded as growers took advantage of better fall weather relative to last year and lower fall nitrogen prices.

EBITDA for the quarter was a loss of \$3 million, half the loss recorded in last year's first quarter, reflecting better margins and a more disciplined cost and margin focus. Earnings in this segment are heavily weighted to the fourth quarter given the significance of the spring selling season on earnings and the high fixed costs of the Pool's expansive Western Canada retail operation.

Segment EBIT for the quarter was a loss of \$5.4 million after amortization charges of \$2.4 million. For the first three months of the previous year, EBIT was a loss of \$7.6 million after \$1.7 million in amortization charges.

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

The Agri-food Processing segment generated sales for the quarter of \$31 million, which compares to \$35 million in the first quarter last year. Sales for Can-Oat Milling declined 12% primarily due to lower oat prices. At Prairie Malt, sales were down approximately 3% for the quarter.

EBITDA for the quarter was \$3.5 million, which compares to \$4.7 million for the previous year's quarter. Can-Oat generated a 19% increase in EBITDA as it focused on margin enhancement, and overhead reductions. Prairie Malt continued to experience lower margins as it moved the last of the poor quality 2002 crop through its operations.

Segment EBIT for the first quarter was \$2.2 million and in the first quarter of 2003 was \$3.5 million. There was no significant variance in amortization charges for the two periods.

### ***Other***

Heartland Pork marketed 80,000 hogs in the first quarter, similar to the previous year's first quarter levels. Sales for the entire segment were \$11.3 million, down from \$14.4 million at this time last year reflecting lower feed and aquaculture sales.

The segment produced a loss before interest, taxes, depreciation and amortization of \$2 million for the quarter, which compares to a loss of \$2.9 million last year. Segment EBIT was a loss of \$2.5 million, including \$0.5 million in amortization. In the first quarter of fiscal 2003, the segment had an EBIT loss of \$5.1 million, which included \$2.2 million in amortization. The primary reasons for the losses in both periods, were factors affecting the pork business, including low prices in fiscal 2003, the rising Canadian dollar, and price variability that has continued into fiscal 2004.

## **Outlook**

The outlook for the Grain Handling and Marketing segment remains positive with increased shipments and export opportunities due to the higher quality crop. The Pool expects to ship 6 to 7 million tonnes of grain in fiscal 2004, based on the CWB's export targets and the assumption that grain shipments will flow more traditionally through to the end of the fiscal year. Management also expects fiscal 2004 EBITDA from this segment to strengthen relative to the previous year as the company balances market share strategies with margin opportunities.

While fertilizer sales could be affected with any material increase in natural gas prices, the Pool remains optimistic that the Agri-Products segment, particularly its retail operations, is poised for a strong year with normal growing conditions in the spring.

EBITDA will be mixed from the remaining operations with better malt barley quality supporting improvements at Prairie Malt. Similar year-over-year results are expected from Can-Oat Milling. Heartland Pork is expected to improve its results over last year, however, the business and the entire industry faces numerous challenges from both an operating and financial perspective.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Working Capital***

Current assets were \$352 million at October 31, down \$46 million from July 31. A \$52 million decrease in accounts receivable and \$14 million decrease in short-term investments held by joint ventures was partially offset by a \$19 million increase in inventories.

The decrease in accounts receivable is due primarily to lower CWB initial prices on grain stocks held by the Pool on their behalf. The increase in inventories is mainly due to higher volumes of non-board grain.

Current liabilities were \$261 million at October 31 down \$42 million from July 31. A decrease of \$83 million in bank indebtedness and short-term borrowings was partially offset by an increase of \$41 million in accounts payable due mainly to an increase in deferred cash tickets for grain.

The company has a \$240 million asset-backed revolving credit facility with its bankers to finance working capital needs. The \$240 million is adjusted to \$275 million during certain months of fiscal 2004. Drawings on the facility at October 31 were \$74 million including \$42 million related to letters of credit and similar instruments required to operate an agri-business. Availability under the facility is determined by reference to the level of inventories and accounts receivable. An additional \$59 million was available to draw on the facility at October 31, 2003.

### ***Cash Flow Information***

Cash flow from operations was \$0.3 million for the three months ending October 31, 2003. This compares to cash flow used in operations of \$11 million for the first quarter of 2003. The improvement reflects better crop quality and a stronger agri-products season in the fall of 2003.

Although grain deliveries for fiscal 2004 will fall short of normal levels, they are expected to increase 1 to 2 million tonnes over last year and as a result, cash flow from operations is expected to improve significantly in fiscal 2004. The Pool expects to be in positive free cash flow position by year-end.

Capital expenditures were \$1.7 million for the three months ended October 31, 2003. Capital expenditures are expected to increase to approximately \$20 million in fiscal 2004 and will be primarily directed toward maintaining the current infrastructure.

### **Long-term Debt**

Long-term debt increased marginally from July 31, 2003 to \$267 million at October 31, 2003. Accretion on the senior subordinated notes and the debt component of the convertible subordinated note totaled \$2.5 million. This was partially offset by principal payments by subsidiaries and joint ventures on their debt. No principal repayments are required on the Pool's \$91 million bank term loan until October 2005 and no principal payments are due on the \$150 million senior subordinated note until it matures in 2008.

### **Convertible Subordinated Notes**

Convertible subordinated notes with a principal value of \$255 million were issued under the Pool's financial restructuring initiative. Each \$1,000 of notes is convertible, at the option of the holder, into approximately 2,227 Class B shares at any time prior to the November 30, 2008, maturity date. Conversions of the notes to October 31, 2003, were as follows:

	<u>Convertible Notes</u> (par value)	<u>Class B Shares</u>
	(in thousands)	
Issued January 31, 2003	\$255,000	60,363
Conversions to July 31, 2003	<u>(50,172)</u>	<u>111,744</u>
Outstanding July 31, 2003	204,828	172,107
Conversion to October 31, 2003	<u>4,354</u>	<u>9,697</u>
Outstanding October 31, 2003	<u>\$200,474</u>	<u>181,804</u>

At maturity, the Pool has the right to convert, subject to certain conditions, the convertible subordinated notes into a single class of voting common shares that represents 90% of the outstanding shares of such class on a fully diluted basis, provided that any payments to or conversions by holders of such notes into Class B non-voting shares prior to maturity proportionately reduces this 90% conversion ratio. Under this provision, the convertible notes that remain outstanding at October 31, 2003 would receive approximately 71% of these newly created shares on a fully diluted basis.

On the October 31, 2003 balance sheet, \$132 million of the convertible subordinated notes is recorded as equity and \$25 million as debt. The difference between the sum of these amounts and the \$200.5 million par value note plus its accrued interest is being accreted to November 30, 2008.

### **RISK MANAGEMENT**

As part of its business environment, the Pool faces certain risks, which include weather, strategic, market, financial restriction, regulatory, credit, foreign exchange, property and liability, and environmental risks, as well as those arising from its reliance on computerized business systems. These risks are managed in a variety of ways. Please refer to pages 19 to 22 of Saskatchewan Wheat Pool's 2003 Annual Report for additional information regarding the management of these risk factors.

## **FORWARD LOOKING INFORMATION**

Certain statements in this Management's Discussion and Analysis are forward-looking and reflect the Pool's expectations regarding future results of operations, financial condition and achievements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance and achievements of the Pool to be materially different from any future results, performance and achievements expressed or implied by those forward-looking statements. A number of factors could cause actual results to differ materially from expectations, including, but not limited to: producers' decisions regarding total seeded acreage, crop selection and utilization levels of farm inputs such as fertilizers and pesticides; weather conditions; Canadian grain export levels; changes in government policy and transportation deregulation; world agricultural commodity prices and markets; changes in competitive forces including pricing pressures; and global political and economic conditions, including grain subsidy actions of the United States and the European Union.

### **EBITDA Data**

The EBITDA data provided herein is intended to provide further insight with respect to the company's financial results and to supplement its information on earnings (loss) as determined in accordance with GAAP. Similar data may not be provided by other issuers and, if provided, needs to be carefully examined to determine whether it is comparable to the company's EBITDA data.



Mayo Schmidt  
Chief Executive Officer



Wayne Cheeseman  
Chief Financial Officer

December 10, 2003  
Saskatchewan Wheat Pool  
2625 Victoria Avenue  
Regina, Saskatchewan  
S4T 7T9  
<http://www.swp.com>

## CONSOLIDATED BALANCE SHEETS

	OCTOBER 31 2003	JULY 31 2003
	(in thousands)	
	(unaudited)	(audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 874	\$ 1,882
Cash in trust <i>(Note 11b)</i>	539	487
Short-term investments <i>(Note 3)</i>	31,927	45,615
Accounts receivable	169,972	222,137
Inventories	134,736	115,972
Prepaid expenses and deposits	12,516	9,973
Future income taxes	1,458	1,624
	352,022	397,690
<b>Investments</b>	5,052	5,020
<b>Property, Plant and Equipment</b>	286,790	291,603
<b>Other Long-Term Assets</b>	9,759	9,368
<b>Future Income Taxes</b>	80,324	80,324
	\$ 733,947	\$ 784,005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank indebtedness <i>(Note 4)</i>	\$ 6,622	\$ 28,192
Short-term borrowings <i>(Note 5)</i>	31,534	92,920
Members' demand loans	10,408	9,165
Members' Class A shares	1,790	1,791
Accounts payable	204,024	163,177
Long-term debt due within one year <i>(Note 6)</i>	7,082	7,810
	261,460	303,055
<b>Long-Term Debt <i>(Note 6)</i></b>	266,959	265,754
<b>Other Long-Term Liabilities</b>	45,123	44,867
<b>Future Income Taxes</b>	7,407	7,553
	580,949	621,229
<b>Shareholders' Equity</b>		
Share capital <i>(Note 7)</i>	62,778	59,417
Contributed surplus	112	84
Convertible subordinated notes - equity component <i>(Note 8)</i>	132,331	130,663
Retained earnings (deficit)	(42,223)	(27,388)
	152,998	162,776
	\$ 733,947	\$ 784,005

**CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS  
FOR THE PERIOD ENDED OCTOBER 31**

	Three Months Ended October 31 2003	Pre-reorganization Three Months Ended October 31 2002 (restated)
	(in thousands)	
	(unaudited)	(unaudited)
<b>Gross Billings</b>		
Grain sales and service revenue	\$ 191,119	\$ 229,706
Sales and service revenue - other segments	101,086	92,829
Sales and service revenues	292,205	322,535
Canadian Wheat Board gross billings	107,267	146,988
<b>Gross Billings</b>	<b>\$ 399,472</b>	<b>\$ 469,523</b>
<b>Sales and Other Operating Revenues</b>		
Sales and service revenues	\$ 292,205	\$ 322,535
Canadian Wheat Board tariffs	10,671	10,339
	302,876	332,874
<b>Cost of Sales and Expenses</b>		
Cost of sales and operating expenses	283,067	319,600
Selling and administrative expenses	12,760	12,854
Amortization	6,528	12,918
	302,355	345,372
<b>Earnings (Loss) Before the Undernoted</b>	521	(12,498)
Non-controlling interest	-	736
<b>Earnings (Loss) Before Interest and Taxes</b>	521	(11,762)
Interest expense (Note 10)	10,330	13,053
<b>Loss Before Corporate Taxes</b>	(9,809)	(24,815)
Recovery of corporate taxes	3	9,197
<b>Net Loss</b>	(9,806)	(15,618)
<b>Retained Earnings, Beginning of Period</b>	(27,388)	(54,422)
Accretion of equity component of convertible subordinated notes	(5,029)	-
<b>Retained Earnings, End of Period</b>	<b>\$ (42,223)</b>	<b>\$ (70,040)</b>
<b>Basic and Diluted Earnings (Loss) Per Share before accretions</b>	<b>\$ (0.06)</b>	<b>\$ (0.42)</b>
<b>Basic and Diluted Earnings (Loss) Per Share (Note 9)</b>	<b>\$ (0.08)</b>	<b>\$ (0.42)</b>

**SALES AND OPERATING REVENUE BY SEGMENT**  
(in thousands)

	<b>Pre-reorganization</b>	
	Three months ended October 31 2003 (unaudited)	Three months ended October 31 2002 (unaudited)
<b>SALES</b>		
Grain Handling and Marketing	\$ 207,867	\$ 249,543
Agri-products	59,069	44,314
Agri-food Processing	31,237	34,665
Other	11,297	14,419
Intersegment sales	(6,594)	(10,067)
	<b>\$ 302,876</b>	<b>\$ 332,874</b>

**SEGMENT EARNINGS FROM OPERATIONS**  
**FOR THE PERIOD ENDING OCTOBER 31**  
(in thousands)

	<b>Pre-reorganization</b>					
	Three months ended October 31 2003 (in thousands) (unaudited)			Three months ended October 31 2002 (in thousands) (unaudited)		
	EBITDA	Amortization	EBIT	EBITDA	Amortization	EBIT
Grain Handling and Marketing	\$ 12,685	\$ 2,340	\$ 10,345	\$ 8,344	\$ 7,555	\$ 789
Agri-products	(3,017)	2,404	(5,421)	(5,895)	1,742	(7,637)
Agri-food Processing	3,526	1,288	2,238	4,717	1,261	3,456
Other	(1,972)	496	(2,468)	(2,874)	2,220	(5,094)
<b>Segment Results</b>	<b>11,222</b>	<b>6,528</b>	<b>4,694</b>	<b>4,292</b>	<b>12,778</b>	<b>(8,486)</b>
Corporate expenses	(4,173)	-	(4,173)	(3,136)	140	(3,276)
<b>Per Financial Statements</b>	<b>\$ 7,049</b>	<b>\$ 6,528</b>	<b>\$ 521</b>	<b>\$ 1,156</b>	<b>\$ 12,918</b>	<b>\$ (11,762)</b>

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE PERIOD ENDED OCTOBER 31**

	Three Months Ended October 31 2003	Pre-reorganization Three Months Ended October 31 2002 (restated)
	(in thousands)	
	(unaudited)	(unaudited)
<b>Cash From (Used in) Operating Activities</b>		
Net loss	\$ (9,806)	\$ (15,618)
Add(deduct) items not involving cash		
Amortization	6,528	12,918
Future income taxes (recovery)	20	(10,433)
Pension	806	368
Interest accretion and bank refinancing amortization	2,482	2,333
Non-controlling interest	-	(736)
Other items	307	176
<b>Cash flow from (used in) operations</b>	<b>337</b>	<b>(10,992)</b>
Changes in non-cash working capital items		
Accounts receivable	52,440	8,151
Securitization of accounts receivable	-	(47,916)
Inventories	(18,764)	(50,577)
Accounts payable	40,314	49,068
Prepaid expenses and deposits	(2,543)	(4,921)
<b>Changes in non-cash working capital</b>	<b>71,447</b>	<b>(46,195)</b>
<b>Cash from (used in) operating activities</b>	<b>71,784</b>	<b>(57,187)</b>
<b>Cash From (Used in) Financing Activities</b>		
Proceeds of long-term debt	-	29,785
Repayment of long-term debt	(2,005)	(1,180)
(Repayment) proceeds of short-term borrowings	(61,386)	23,648
Increase (repayment) of members' demand loans	1,243	(5,160)
Repayment of members' shares	(1)	(6)
(Decrease) increase in other long term liabilities	(927)	67
<b>Cash (used in) from financing activities</b>	<b>(63,076)</b>	<b>47,154</b>
<b>Cash From (Used in) Investing Activities</b>		
Property, plant and equipment expenditures	(1,710)	(1,652)
Proceeds on sale of property, plant and equipment	550	851
(Increase) decrease in cash in trust	(52)	-
Decrease in investments	-	803
(Increase) decrease in other long-term assets	(622)	60
<b>Cash (used in) from investing activities</b>	<b>(1,834)</b>	<b>62</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>6,874</b>	<b>(9,971)</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>19,305</b>	<b>(3,820)</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 26,179</b>	<b>\$ (13,791)</b>

Cash and cash equivalents consist of cash, short-term investments and bank indebtedness.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2003 in thousands of Canadian dollars, except as noted**

**1. FINANCIAL REORGANIZATION**

The company was subject to a financial reorganization with an effective date of January 31, 2003. 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). 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.

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. As a result of applying fresh start accounting, the share capital of the company was reduced by \$435.4 million, including \$88.9 million related to the elimination of the company's deficit.

**2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

The unaudited interim consolidated financial statements (interim financial statements) include the accounts of Saskatchewan Wheat Pool, its subsidiaries and affiliated companies and have been prepared in accordance with GAAP. These interim financial statements do not include disclosures normally provided in annual financial statements and should be read in conjunction with the company's fiscal 2003 Annual Report.

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.

**Use of Estimates**

Management is required to make estimates and assumptions that affect the amounts reported in the financial statements. Management believes that the estimates are reasonable, however, actual results could differ from these estimates.

**Comparative figures**

Comparative financial statements for periods prior to January 31, 2003 have been presented pursuant to regulatory requirements. In reviewing the comparative financial statements, readers are reminded that they do not reflect the effects of the financial reorganization or the application of fresh start accounting and as a result are not comparable. Certain prior period amounts have been reclassified in order to conform with current period classifications.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2003 in thousands of Canadian dollars, except as noted**

The interim financial statements are based upon accounting principles consistent with those used and described in the annual financial statements, except for the following:

*Hedging Relationships* - Effective August 1, 2003, in certain areas of the organization not related to the handling and marketing of grain, the company commenced application of the Canadian Institute of Chartered Accountants (CICA) "Accounting Guideline 13". The guideline deals with identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. Hedge accounting is the same period recognition, in income, of the gains, losses, revenues and expenses associated with a hedged item and the hedging instrument. The guideline states that hedge accounting will apply when all of the following criteria are met at inception of the hedge:

- the entity identifies the risk exposure being hedged and designates that hedge accounting will be applied to the hedging relationship.
- the entity has prepared documentation of its risk management objective and strategy for the hedging relationship, the hedging item, the term of the hedge and the method for accessing the effectiveness of the hedge. There also needs to be a method for recognizing in income the gains & losses associated with the hedged items.
- The entity has reasonable assurance that the hedge will be effective. The effectiveness of the hedge should be measurable and assessed regularly.

The effect of applying hedge accounting to these interim financial statements is negligible.

As outlined in the fiscal 2003 annual report the company continues to follow the principles of marked to market accounting for inventories in the Grain Handling and Marketing segment.

**Handling of certain grains on behalf of the Canadian Wheat Board (CWB)**

As described in the fiscal 2003 Annual Report, the company changed its accounting policy regarding the company's and the industry's handling of certain grains on behalf of the CWB. The company now 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 change was made retroactively with restatement of prior periods. The impact of making this change is as follows:

- No impact on net loss or retained earnings (deficit).
- Reduces sales and other operating revenues for the three months ended October 31, 2003 by \$96.6 million (three months ended October 31, 2002 - \$ 136.6 million).
- Reduces costs of sales and operating expenses for the three months ended October 31, 2003 by \$96.6 million (three months ended October 31, 2002 - \$136.6 million).
- Increases accounts receivable and correspondingly decreases inventories at October 31, 2003 by \$52.6 million (July 31, 2003 - \$112.5 million).

**3. SHORT-TERM INVESTMENTS**

	<b>October 2003</b>	<b>July 2003</b>
Saskatchewan Wheat Pool	\$ -	\$ -
Subsidiaries' and proportionate share of joint ventures' short-term investments	31,927	45,615
<b>Total</b>	<b>\$ 31,927</b>	<b>\$ 45,615</b>

**4. BANK INDEBTEDNESS**

	<b>October 2003</b>	<b>July 2003</b>
Saskatchewan Wheat Pool bank indebtedness	\$ 3,550	\$ 23,471
Subsidiaries' and proportionate share of joint ventures' bank indebtedness	3,072	4,721
<b>Total</b>	<b>\$ 6,622</b>	<b>\$ 28,192</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2003 in thousands of Canadian dollars, except as noted**

**5. SHORT-TERM BORROWINGS**

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 October 31, 2003 the company had outstanding letters of credit and similar instruments of \$42.4 million related to operating an agri-business (July 31, 2003 - \$25.0 million). These instruments effectively reduce the amount of cash that can be drawn on the revolving credit facility.

At October 31, 2003 availability under the revolving credit facility was \$58.9 million (July 31, 2003 - \$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.

	<b>October 2003</b>	<b>July 2003</b>
Saskatchewan Wheat Pool short-term borrowings	\$ 31,534	\$ 92,920
Subsidiaries' and proportionate share of joint ventures' short-term borrowings	-	-
<b>Total</b>	<b>\$ 31,534</b>	<b>\$ 92,920</b>

**6. LONG-TERM DEBT**

	<b>October 2003</b>	<b>July 2003</b>
Senior secured bank term loan	\$ 90,600	\$ 90,600
Senior subordinated notes	127,076	125,491
Convertible subordinated notes – debt component	24,832	23,935
Members' term loans	4,473	4,676
Subsidiaries and proportionate share of joint ventures' debt	27,060	28,862
	<b>274,041</b>	<b>273,564</b>
<b>Portion due within one year</b>		
Members' term loans	1,175	1,280
Subsidiaries and proportionate share of joint ventures' debt	5,907	6,530
	<b>7,082</b>	<b>7,810</b>
<b>Total long-term debt</b>	<b>\$ 266,959</b>	<b>\$ 265,754</b>

**(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
- In accordance with the credit agreement with the company's bankers, net proceeds received from the sale of certain property, plant and equipment is required to be repaid to reduce the loan outstanding.

**(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 October 31, 2003 is \$150 million (July 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2003 in thousands of Canadian dollars, except as noted**

- 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.

**(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 October 31, 2003 would receive approximately 71% of these newly created shares on a fully diluted basis.
- In accordance with GAAP, the convertible 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 three months ended October 31, 2003, \$4.3 million face value of 9% Notes (inception - \$54.5 million) were converted at the holder's option into 9,696,751 class B non-voting shares (inception – 121,440,539) leaving \$200.5 million of face value outstanding.

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 one-year to seven-year loans with Class A shareholders and employees. Interest is payable semi-annually at interest rates which vary from 4.5% to 9.0%.

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

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

**7. SHARE CAPITAL**

The following table summarizes the Class B non-voting share capital for the three-month period ended October 31, 2003.

	<b>Issued and outstanding</b>	
	<b># Shares</b>	<b>\$ Amount</b>
Balance at July 31, 2003	172,107	\$ 59,417
Convertible notes converted to Class B shares in the period	9,697	3,361
<b>Balance at October 31, 2003</b>	<b>181,804</b>	<b>\$ 62,778</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – October 31, 2003 in thousands of Canadian dollars, except as noted**

**8. CONVERTIBLE SUBORDINATED NOTES – EQUITY COMPONENT**

The company issued \$255 million of convertible subordinated notes as part of the January 31, 2003 financial restructuring. 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.

July 31, 2003 carrying value	\$ 130,663
Accretion of equity component of convertible subordinated notes	5,029
Conversions in the three-month period ended October 31, 2003 with a face value of \$4.3 million (see note 6)	(3,361)
<b>Total</b>	<b>\$ 132,331</b>

**9. EARNINGS PER SHARE**

	<b>Three months ended October 31, 2003</b>	<b>Pre-reorganization Three months ended October 31, 2002</b>
Net loss for the period	\$ (9,806)	\$ (15,618)
Less:		
Accretion of equity component of convertible subordinated notes	(5,029)	-
<b>Total</b>	<b>\$ (14,835)</b>	<b>\$ (15,618)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.08)</b>	<b>\$ (0.42)</b>
<b>Weighted average number of shares outstanding</b>	<b>177,489</b>	<b>37,425</b>

The potentially dilutive effect of the conversion of the 9% convertible notes and the exercise of options related to stock option plans were not included in the calculation of diluted loss per share as the result would be anti-dilutive.

**10. INTEREST EXPENSE**

	<b>Three months ended October 31, 2003</b>	<b>Pre-reorganization Three months ended October 31, 2002</b>
SWP interest	\$ 7,613	\$ 10,110
SWP non-cash accretion and amortization	2,482	2,333
Subsidiaries and proportionate share of joint ventures' interest	235	610
<b>Total interest</b>	<b>\$ 10,330</b>	<b>\$ 13,053</b>

**11. GUARANTEES**

- a) Banking letters of credit and similar instruments – see note 5.
- b) 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 fund loan losses in excess of a credit loss reserve. At October 31, 2003, \$134 million was outstanding under the program of which \$1.1 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.