



SASKATCHEWAN WHEAT POOL
Conference Call for March 24, 2004 @ 1:30 p.m. EST
CHAIRPERSON: COLLEEN VANCHA

Operator:

Please stand by; your meeting is about to begin. Please be advised today's conference is being recorded.

Good afternoon and welcome to the Second Quarter Conference Call scheduled for March 24, 2004. Your host for today will be Ms. Colleen Vancha. Ms. Vancha, please go ahead.

Colleen Vancha:

Thank you very much. Good afternoon ladies and gentlemen. Thank you for joining us today to discuss the Pool's results for the second quarter for the period ending January 31. I trust you've read the press release and had an opportunity to review the quarterly report that has been published on our website.

Joining us today Wayne Cheeseman, our CFO; Fran Malecha, our Senior VP of the Grain Group; Doug Weinbender, VP of Agri-Products; and of course, Mr. Mayo Schmidt, our Chief Executive Officer. He will be providing you with the overview today. Mayo?

Mayo Schmidt:

Thank you, Colleen. I'm extremely pleased to report on our progress through the second quarter of fiscal 2004. We had a strong quarter and are generating momentum as we moved into the last half of the year when a significant portion of our revenues and earnings are realized.

Our volumes of grain and oilseeds were up both on a receipt and shipment basis, and this is very important because in the grain business, obviously, volume is a key earnings driver.

We experienced strong agri-products sales and earnings. Despite some softness in agri-food sales, earnings remain strong from that segment of operations.

On an EBITDA basis, the Pool generated approximately \$23 million in the quarter and \$30 million in the first six months. Last year the Pool lost \$2.2 million in the first half of the year.

There were one-time items that contributed to this year's improvement.

- We received a property tax rebate of \$4 million related to our Thunder Bay terminal, and
- we received an income tax refund which resulted in interest revenue of \$2.8 million for the quarter.

Last year the loss of 2.2 million at the EBITDA level included a \$6.6 million gain in grain insurance proceeds.

The Pool also recorded its third consecutive quarter of positive cash flow from operations. The Pool generated cash flow from operations of \$13.6 million, bringing the year-to-date total to \$13.9 million. During the first six months of the previous year, the Pool's cash flow from operations was in a negative position of \$26.4 million.

On the cost side of the business, we were able to keep costs in the grain business on par with 2003, even though last year we did not incur costs at our Vancouver terminal in the first six months because of a labour dispute that had closed that facility. Employees in our grain division

have handled significantly more business in the first six months of this year without increasing their costs.

In our agri-products business, costs were down nearly \$2 million year-over-year, reflecting the closure of smaller local retail outlets as well our new management's control of our distribution costs.

As we look at the net income earned in the quarter, please note we included a \$2.6 million tax recovery. The net income, prior to the impairment charge was \$6 million. This is the third consecutive quarter of improved earnings and our second profit in the last three quarters.

We remain on track to maintain our year-over-year performance improvements through year-end if normal weather conditions resume in the spring. If we were to exclude the one-time items and the impairment charge this quarter, the loss would have been \$3.5 million. Last year the Pool recorded a loss of \$18.8 million in the second quarter, again which included grain insurance proceeds.

As I mentioned, the Pool recorded a \$10.7 million charge related to the carrying value of the assets in the pork industry. On March 12 we announced our intention to exit the pork industry due to prolonged difficulties in that sector. We're currently in the midst of discussions with interested parties and hope to be in position to fully exit that business in the next few months. The fire at the Bear Hills operation last week is not expected to impact those discussions.

The net loss, after including the impairment, was \$4.8 million for the quarter, \$14.6 million for the first six months of fiscal 2004. The net loss in the second quarter of last year was \$18.8 million and \$34.4 million for the six months ended in January 31 of 03.

Now turning to the grain handling and marketing segment, operations preformed well in the second quarter. Shipments for the quarter were up 27 percent overall with Canadian Wheat Board shipments up 87 percent for the three months. For the six-month period, shipments were up 8 percent year-over-year. Canadian Wheat Board shipments were 34 percent higher in the first half of the year. As a result of better wheat and barley crops, the Board/non-board split was 60/40 compared to 49/51 last year, which reflected a much larger proportion of non-board feed grains. Year to date, market share remains on par at 21 percent. Margins were strong. We are confident that our margin per tonne for the full year will come in at the \$20 to \$23 range.

EBITDA from this segment was \$19.8 million for the quarter and \$32.5 million for the six months. Grain EBITDA included the one-time interest revenue and the property tax rebate I referenced earlier.

Last year, the grain segment lost \$1.2 million in the quarter. For the six months of 2003 we earned EBITDA of \$7.2 million, the majority of which was \$6.6 million grain insurance.

In the agri-products business, sales were lower relative to last year's second quarter. This is because farmers took pre-paid product home early during the January 2003 restructuring in order to protect their purchases. As a result, some of the sales in that quarter were recognized earlier in the season. Overall, that business is performing very well.

The agri-products segment generated sales of \$66 million in the quarter, bringing its year to date total to \$125 million, up from \$123 million for the first six months of fiscal 03.

EBITDA for the quarter was \$4 million, up from the previous year's quarter when the segment broke even. On a year to date basis, EBITDA was \$1 million, which compares to an EBITDA

loss in the comparable period a year earlier of \$6 million. The improvement was driven by better margins in fertilizer and crop protection products, partially offset by lower seed sales due to slower demand from farmers who have chosen not to purchase seed early.

Now turning to the agri-food segment. The segment generated sales for the quarter of \$26 million, which compares to \$30 million in the second quarter of last year. Sales for the six-month period were \$57 million, down from the \$65 million. The variance primarily relates to the cereal market and Can-Oat Milling sales, which softened somewhat because of the current dietary trends that are promoting high-protein, low-carbohydrate foods.

At Prairie Malt, sales were down slightly for the quarter. Sales values as opposed to volumes were the primary factor reflecting overall lower barley prices year-over-year.

EBITDA for the quarter was \$5.6 million, up significantly from the \$1.6 million earned in the second quarter of last year. For the six months that were ended January 31 of 2004, EBITDA was \$9.2 million compared to \$6.3 million in fiscal 2003's first six months.

Can-Oat Milling achieved margin improvements due to favourable changes in their product mix while Prairie Malt saw earnings improve as a result of access to higher quality Canadian barley crop this year.

The Other segment had another difficult quarter because of the difficulties facing the pork industry, which include:

- poor demand for pork because of BSE, which has increased the domestic demand for beef,
- the appreciation of the Canadian dollar and its impact on sales prices, and
- higher than expected feed costs during the first six months of the year.

Sales for this segment were \$15.1 million for the quarter and \$26.4 million for the first six months, which compares to \$16 million and \$30.5 million for the same periods a year earlier.

The segment produced a loss before interest, taxes, and amortization of \$2.9 million for the quarter, which compares to EBITDA in the second quarter last year of \$1 million. For the first six months of fiscal 04, the EBITDA loss was \$4.9 million, which compares to an EBITDA loss of \$1.9 million for the same period last year.

As we look forward to the balance of the year, there are a number of reasons to be optimistic about the upcoming growing season.

- The recent announcement of the federal government's funding to farmers impacted by the BSE and drought is welcome news and provides much needed funds to our customer base prior to seeding;
- We're hopeful that our exit from the pork business will occur over the next several months, allowing us to focus on the operational momentum being generated by our core operations;
- Recent precipitation, particularly in Manitoba, Saskatchewan has provided the necessary moisture to support spring planning;
- Estimates of a rise in canola seeded acreage, should they materialize, would be positive for our agri-products business; and

- Should seasonal rains continue through the growing season, the Pool remains focused on breaking even for the year, excluding, of course, the non-cash provision taken in this quarter.

The Pool's Senior Management Team is present to take questions, and Colleen; I'll turn the call over to you for questions and answer session.

Colleen Vancha:

Thank you very much. Operator, if we could turn the call over to participants. We will take questions from the market first and then move on to the media questions.

Operator:

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 are using a speakerphone, please pick up your handset and then press *1. To withdraw your request, it's *2. Once again, if you have any questions, please press *1 on your touch-tone phone.

The first question comes from Steven Chant. Please go ahead.

Steven Chant:

Hi. Just wanted to know the breakdown of how much of the convertible notes are in the long-term debt?

Colleen Vancha:

Yes, we'll get that information for you.

Steven Chant:

Oh, you'll get it or you have it?

Colleen Vancha:

We have it; we'll just pull it out for you.

Steven Chant:

Oh, okay. Thank you.

Operator:

Your next question comes from Louis Sarich. Please go ahead.

Louis Sarich:

Just wondered how much of your positive cash flow will go to debt reduction and is it required for further capital expenditures?

Mayo Schmidt:

First of all, we, at this time, have no intentions of making further down payments or payments on debt. Secondly, as we've indicated to the marketplace, we've had, for the last few years, a pretty strong control on capital expenditures. We do believe that capital expenditures are going to need to increase in the coming months and over the next year or two to maintain some of our most valuable assets, so you'll see certainly capital expenditures begin to ramp up, but it's still at a very low level, which is just several million dollars a year right now, and it'll go to a multiple of that in the next year or so.

Louis Sarich:

And I have a second question with regard to the convertible subordinated notes. In addition to Steven Chant's question, how much more, how many more notes were outstanding. I just wanted to know, these conversions, are they scheduled or are they optional?

Mayo Schmidt:

They're not scheduled; they're optional. What is scheduled is that the company has stated that it's likely that in 2008 at the company's option that it would convert the balance of the notes. To date, from March 14, 2003 to the end of February 2004 \$73 million of the convertible notes have been converted, which of course has resulted in approximately 222 million shares being outstanding. There have not been significant conversions to date for the month of March.

Wayne Cheesman:

Yes, it's Wayne Cheesman. If you refer to note seven in the financial statements, there is \$26 million of convertible subordinates in the long-term debt.

Operator:

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

Roberta Rampton:

I have a couple of questions. I just wanted to clarify, you said that you're targeting average margins of \$20 to \$23 per tonne, which by my math is up more than 30 percent from last year and I just wanted to clarify whether in this second quarter you saw margins that were about 30 percent or better than the year ago quarter?

Fran Malecha:

Yes, our margins in the second quarter were consistent with that.

Roberta Rampton:

Okay. And on the growing season ahead, Mr. Schmidt, you said near the end that as long as there's rain you foresee breaking even except for the non-cash provision taken in this quarter. Are you referring there to the hog charge?

Mayo Schmidt:

Yes I am.

Roberta Rampton:

Okay. So aside from charges related to getting out of the hog business? You still see the company breaking even?

Mayo Schmidt:

That's correct. We view that the company, as we stated earlier, was in striking distance of breakeven in this particular year. Although our results continue to be drought related, we do believe that we should still see that event occur with normal growing conditions, and of course, notwithstanding the one time event of the provision.

Roberta Rampton:

Okay. And just on the charges related to getting out of the hog business, do you expect those charges to continue to drag on net earnings through coming quarters?

Mayo Schmidt:

No we do not.

Roberta Rampton:

Lastly, how challenging is it to find buyers for these operations given the climate in the sector, the very difficult conditions in the sector and the looming trade challenge from the United States?

Mayo Schmidt:

You know, right now we are actively involved in discussions with multiple parties and so I would say that there certainly is a definite interest in the marketplace in this business.

Roberta Rampton:

Thanks.

Mayo Schmidt:

You're welcome.

Operator:

Thank you. Your next question comes from Rafe Leeman. Please go ahead.

Rafe Leeman:

Hello. My question is about the inventory and accounts receivable balances being a little bit lower than they were last year and accordingly the short-term borrowings, and I'm wondering if that's indicative in any way of any lower grain and agri-products purchasing, which could possibly lead to lower results than otherwise in the coming year. I guess on that note, can you provide any insight into how your full year EBITDA numbers might look?

Wayne Cheesman:

Yes, we had larger inventories last year than we do this year. The numbers that we're showing this year at January 31 would be more normal in a business as usual scenario.

Operator:

Thank you. For any further questions, please press *1 to place yourself into the question queue.

The next question comes from Adrian Ewins. Please go ahead.

Adrian Ewins:

The margins on grain handling is quite a huge change. It mentions in the press release, "due in large part to poor crop quality." I'm not quite sure I understand. If you could explain that to me? And I also wonder if the reduced tendering - is less aggressive and less competitive tendering this year, if that has a positive impact on your per tonne margin.

Fran Malecha:

I think the difference, or the change in margins from last year to this year, is because the crop mix has changed. Last year, because of quality reasons, we traded a lot more feed grains and had a lot less board grains to trade in both barley and wheat and this year it's reversed. We're back to, I believe, 60/40, which is a more normal split. 60 percent of our volume being board grains, 40 percent non-boards.

Adrian Ewins:

Okay. And the margins then are higher on the higher valued grains, is that correct?

Fran Malecha:

That's correct. And a larger portion of export business as well.

Adrian Ewins:

And is the tendering producing less of a margin loss this year?

Fran Malecha:

The tendering has been quite aggressive from all the grain companies. The industry is tendering a smaller portion, only 20 percent this year versus about 50 percent, so I would say that it's still quite competitive.

Adrian Ewins:

And you would, just to touch on that issue, still obviously though prefer a broader tendering than 20 percent, even though it's less of an impact on your per tonne margin?

Fran Malecha:

We would prefer more tendering. We stated that we were in favour of 50 to 100 percent tendering and part of that mainly has to do with logistics and being able to load more 100-car trains than it does with the competitiveness week in and week out on those tenders.

Adrian Ewins:

Your market share, could you tell me what that held at in the second quarter and where you're looking at that being through the rest of this year compared to last year?

Fran Malecha:

Market share has been pretty consistent throughout the year. In the 21 percent range, which is where it was at the end of last year. And you know we don't see a significant change from that number to the end of the year.

Adrian Ewins:

Thank you.

Operator:

Thank you. Your next question comes from Don Morris. Please go ahead.

Don Morris:

I wonder if you're interested or are pursuing any mergers with other companies?

Mayo Schmidt:

Don, we wouldn't comment on that, in fact, related to any strategy we might have until there was an announcement, but I can't comment on that at this time.

Don Morris:

I would take it likely you are and would Agricore be one of them?

Mayo Schmidt:

No, I would say that typically in any industry there are always discussions between companies regarding strategies and opportunities to find combinations that make for a healthier industry and I think this is an industry that certainly needs combinations to create a healthier industry, but I certainly can't comment on anybody we may or may not be having discussions with.

Don Morris:

Thank you.

Operator:

Thank you. Your next question comes from Greg Boland. Please go ahead.

Greg Boland:

Hi, guys. Congratulations. We talked a little bit last quarter. I asked the question about potentially dealing with the capital structure and I guess at the time you said, Mayo, that it was

something you were watching and we're going to come to a decision. Has that been advanced at all or have you evaluated it any more since we last asked the question or do you have any further colour on how and when this might be achieved for the long-term health of the company?

Mayo Schmidt:

You know, I would say that the strategic planning committee of the Saskatchewan Wheat Pool is, even of course this quarter, underway and that's certainly something that they have on their mind. Whether or not they've made a decision on that, I really couldn't comment on that, but it's certain, they have not failed to consider the capital structure of the company going forward and it really is the charge of that strategic committee, which I also sit on, to come up with the best capital structure and go-forward business plan of the company. So I think you can be assured that we are going to be looking at all avenues of opportunity for the company.

Greg Boland:

That's great. I appreciate it. Thank you very much.

Mayo Schmidt:

You're welcome. Thanks.

Operator:

Thank you. Once again, for any further questions, *1 from your touch-tone phone.

You have a follow-up question from Roberta Rampton. Please go ahead.

Roberta Rampton:

With the surging oilseed prices that we see now, I'm curious to know a little bit more about what that may mean for Saskatchewan Wheat Pool.

Fran Malecha:

I guess from the grain side of our business, it means that we're seeing fairly brisk movement of the oilseed supplies that are still in producers bins, so that continues, and for new crop, it probably makes canola the best return per acre. So I think we'll see canola acres up in that 15 percent range, which I believe is what Agriculture Canada came up with and continued good export opportunities next year from the grain side.

Doug Weinbender:

From the agri-product side, as the seeded acres increase, our earnings also have the potential of increasing in the agri-products portfolio because we're heavily weighted to the oilseeds.

Roberta Rampton:

Because they require more supplies or...?

Doug Weinbender:

They require higher input values, that's correct.

Roberta Rampton:

Okay. And just because, I want to be careful, is it fair to say that had it not been for the hog charges that the company would have a net earnings and would have been in the black this quarter?

Mayo Schmidt:

That's correct. I draw your attention to a couple of events. There were some tax refunds that we received, there was also an impairment, but if you take the impairment out solely that the company would have been positive in terms of net income, that's correct.

Roberta Rampton:

Okay. And if you took the tax refunds out, would it still have been?

Mayo Schmidt:

It's just under a \$6 million profit with the tax refunds and about a \$3 million loss without the tax refunds. So taking all the special one-time events out, it would be a loss of about \$3 million. Tax in, profit of just under \$6 million.

Roberta Rampton:

Thanks for clarifying that for me.

Mayo Schmidt:

You're certainly welcome.

Operator:

Thank you. Your next question comes from is also a follow-up from Adrian Ewins. Please go ahead.

Adrian Ewins:

Hi. I was looking at your share price today, and after climbing fairly steadily through last fall to about \$0.46 or so in January, it's been again now steadily declining a bit down to about \$0.37 or \$0.38. Is there anything particular going on that's being reflected there and is there anything that you can do strategically to deal with that? Or is that just something you sit and watch like everybody else? How do you respond to that?

Mayo Schmidt:

Well I certainly suggest we don't sit and watch it but, I would say this, that frankly some of those changes and it's difficult to measure the magnitude, but some of those changes are driven by the conversions. Of course I indicated earlier the volume of conversions that this Company has experienced, which to date has been 73 million of convertible notes. Whenever those convert they obviously put pressure on the share price and it seems that the share price has been very resilient in the face of substantial conversions, so I think that speaks strongly toward the support that we are receiving on the equity side of the business from the marketplace.

Adrian Ewins:

And just to clarify, when you were speaking earlier in answer to one of the questions about the capital structure, was that talking about the 10 percent ownership on that? Is that what is reference to?

Mayo Schmidt:

Yeah. I believe the question was relative to the fact that the company has a cap on ownership of 10 percent. Lifting the cap, of course, I think the point of it would encourage additional institutional investment and the question was, has the Board considered lifting the cap. Certainly the Board recognizes the value of institutional ownership and the liquidity that would be provided if the cap were changed. So we do consider, and, continue to consider this as an issue, which is in the context of our earning platform timing, our entire capital structure, the market, what shareholders issues might be considered in the future, and what level may make sense in the longer-term. But we have seen strong conversions to date, which adds additional shares to the

market place, so I can say that no decision has been made at this point relative to the cap and should the change be considered, it would require a bylaw change of the company.

Adrian Ewins:

Right, that was my next question. It doesn't have to be anything to do with the amendment to the Act itself?

Mayo Schmidt:

No, it's in the hands of the delegates. That's correct.

Adrian Ewins:

Okay. Thank you.

Mayo Schmidt:

You're welcome.

Operator:

Thank you, gentlemen. We have no further questions from the phone lines.

Colleen Vancha:

And no more questions from the media as well, operator, is that correct?

Operator:

That's correct.

Colleen Vancha:

Okay. Thank you very much everyone for participating on the call. The playback number is 416-695-5275. It will be available in approximately one hour until the end of the day on March 31, 2004. Thank you.

Operator:

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