

AUDITORS' REPORT TO THE SHAREHOLDERS
OF SASKATCHEWAN WHEAT POOL INC.

We have audited the consolidated balance sheets of Saskatchewan Wheat Pool Inc. as at July 31, 2005 and July 31, 2004 and the consolidated statements of earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at July 31, 2005 and July 31, 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Regina, Saskatchewan
September 30, 2005

Deloitte & Touche LLP
Chartered Accountants

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Saskatchewan Wheat Pool Inc. is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and management's discussion and analysis. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts based on management's informed judgements and estimates. Financial information contained in management's discussion and analysis is consistent with the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal accounting controls has been established to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that assets are safeguarded. An internal audit function evaluates the effectiveness of internal controls and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control systems. The Audit Committee is composed of independent directors who are not employees of the Corporation. The Audit Committee is responsible for reviewing the consolidated financial statements and management's discussion and analysis and recommending them to the Board of Directors for approval. To discharge its duties the Audit Committee meets regularly with management, internal audit and Deloitte and Touche LLP to discuss internal controls, accounting and financial reporting processes, audit plans and financial matters. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Deloitte & Touche LLP is responsible for auditing the consolidated financial statements and expressing their opinion thereon and their report is presented separately. The external auditors have full and free access to, and meet regularly with, management and the Audit Committee.

Mayo M. Schmidt

Mayo M. Schmidt
Chief Executive Officer

Wayne G. Cheeseman

Wayne G. Cheeseman
Chief Financial Officer

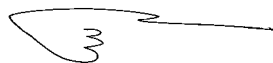
October 12, 2005

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

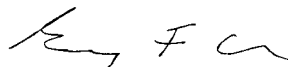
(in thousands) AS AT	July 31 2005	July 31 2004
ASSETS		
Current Assets		
Cash	\$ 2,074	\$ 453
Cash in trust (Note 15b)	771	1,176
Short-term investments (Note 4)	79,264	25,999
Accounts receivable (Note 5)	127,102	164,234
Inventories (Note 6)	117,416	104,887
Prepaid expenses and deposits	20,737	9,810
Future income taxes (Note 22c)	78	1,198
	<u>347,442</u>	<u>307,757</u>
Investments (Note 7)	5,437	5,051
Property, Plant and Equipment (Note 8)	251,489	266,842
Other Long-Term Assets (Note 9)	14,822	8,219
Future Income Taxes (Note 22c)	102,670	95,565
	<u>\$ 721,860</u>	<u>\$ 683,434</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank indebtedness (Note 10)	\$ 8,060	\$ 13,089
Short-term borrowings (Note 11)	392	1,501
Members' demand loans (Note 12)	21,476	18,691
Members' Class A Shares (Note 16)	-	1,783
Accounts payable and accrued liabilities (Note 13)	115,319	150,745
Long-term debt due within one year (Note 14)	5,461	7,893
	<u>150,708</u>	<u>193,702</u>
Long-Term Debt (Note 14)	148,928	251,930
Other Long-Term Liabilities (Note 15)	37,424	40,980
Future Income Taxes (Note 22c)	3,559	5,944
	<u>340,619</u>	<u>492,556</u>
Shareholders' Equity		
Share capital (Note 16)	439,485	81,287
Contributed surplus	243	177
Convertible Subordinated Notes - equity component (Note 17)	-	128,635
Retained earnings (deficit)	(58,487)	(19,221)
	<u>381,241</u>	<u>190,878</u>
	<u>\$ 721,860</u>	<u>\$ 683,434</u>

Commitments, contingencies and guarantees (Note 26).

On behalf of the Board of Directors



Terry Baker
Director



Gary Colter
Director

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

(in thousands)

FOR THE YEAR ENDED	July 31 2005	July 31 2004
Sales and Other Operating Revenues	\$ 1,385,730	\$ 1,407,297
Cost of Sales and Expenses		
Cost of sales and operating expenses	1,260,496	1,267,537
Selling and administrative expenses	54,704	52,419
Amortization	26,460	24,582
Provision recoveries (Note 20)	-	(6,216)
	<u>1,341,660</u>	<u>1,338,322</u>
Earnings Before Interest and Taxes	44,070	68,975
Interest expense (Note 21)	37,050	39,084
Earnings Before Corporate Taxes	7,020	29,891
Corporate tax expense (Note 22a)	3	11,951
Earnings From Continuing Operations	7,017	17,940
Net Recoveries (Losses) From Discontinued Operations (Note 19)	5,072	(12,921)
Net Earnings	12,089	5,019
Retained Earnings (Deficit), Beginning of Year	(19,221)	(27,388)
Future income tax adjustment (Note 22c)	15,578	22,990
Future income taxes - Costs of recapitalization	4,742	-
Future income taxes - Other items related to recapitalization	(11,102)	-
Share recapitalization costs (Note 16)	(12,992)	-
Share recapitalization inducement premium (Notes 14c and 16)	(33,846)	-
Accretion of equity component of Convertible Subordinated Notes (Notes 16b and 17)	(13,735)	(19,842)
Retained Earnings (Deficit), End of Year	<u>\$ (58,487)</u>	<u>\$ (19,221)</u>
Basic and Diluted Loss Per Share (Note 16b)		
From Continuing Operations	<u>\$ (1.44)</u>	<u>\$ (0.18)</u>
Net Earnings (Loss)	<u>\$ (1.26)</u>	<u>\$ (1.43)</u>

SASKATCHEWAN WHEAT POOL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

FOR THE YEAR ENDED	July 31 2005	July 31 2004
Cash From (Used in) Operating Activities		
Earnings from continuing operations	\$ 7,017	\$ 17,940
Add (deduct) items not involving cash		
Amortization	26,460	24,582
Future income tax (recovery) provision (Note 22a)	(1,503)	13,093
Pension	1,107	1,965
Non-cash interest (Note 21)	15,361	10,496
Other items	(1,783)	(3,331)
Provision recoveries (Note 20)	-	(6,216)
Cash flow from continuing operations	46,659	58,529
Changes in non-cash working capital items		
Accounts receivable	40,098	54,810
Inventories	(12,441)	(1,785)
Accounts payable	(36,476)	(8,582)
Prepaid expenses and deposits	(10,858)	(1,781)
Changes in non-cash working capital - continuing operations	(19,677)	42,662
Cash from operating activities - continuing operations	26,982	101,191
Cash provided by (used in) discontinued operations	960	(8,478)
Cash from operating activities	27,942	92,713
Cash From (Used in) Financing Activities		
Proceeds of long-term debt	100,000	-
Repayment of long-term debt	(185,440)	(16,571)
Repayment of short-term borrowings	(1,109)	(91,187)
Repayment of other long-term liabilities, net	(646)	(2,949)
Proceeds of members' demand loans	2,785	9,526
Repayment of members' Class A Shares	(524)	(8)
Increase in share capital	150,125	-
Continuance and rights offering costs	(12,406)	-
Refinancing cost	(8,939)	-
Cash used in discontinued operations	-	(4,546)
Cash from (used in) financing activities	43,846	(105,735)
Cash From (Used in) Investing Activities		
Property, plant and equipment expenditures	(12,865)	(17,322)
Proceeds on sale of property, plant and equipment	1,543	3,909
Divestitures	-	22,135
Decrease (increase) in cash in trust (Note 15b)	405	(689)
Decrease (increase) in investments	45	(101)
Increase in other long-term assets	(1,001)	(526)
Cash used in discontinued operations	-	(326)
Cash (used in) from investing activities	(11,873)	7,080
Increase (decrease) in Cash and Cash Equivalents	59,915	(5,942)
Cash and Cash Equivalents, Beginning of Year	13,363	19,305
Cash and Cash Equivalents, End of Year	\$ 73,278	\$ 13,363
Cash and cash equivalents consist of:		
Cash	\$ 2,074	\$ 453
Short-term investments	79,264	25,999
Bank indebtedness	(8,060)	(13,089)
	\$ 73,278	\$ 13,363
Supplemental disclosure of cash paid during the period from continuing operations:		
Interest paid	\$ 23,386	\$ 29,624
Income taxes paid, net	\$ 744	\$ 725

SASKATCHEWAN WHEAT POOL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

Saskatchewan Wheat Pool Inc. (the company), a corporation formerly constituted by a special act of the Saskatchewan legislature, and now continued under the Canada Business Corporations Act, is a publicly traded, vertically integrated Canadian agri-business. The continuance became effective March 31, 2005, and is described in more detail in Note 14c and Note 16. Business operations include three reporting segments: Grain Handling and Marketing, Agri-products and Agri-food Processing.

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

The company's earnings are seasonal. Sales primarily follow crop production cycles as influenced by weather patterns and are generally strongest in the spring when crops are seeded and in the fall when crops are harvested. Earnings in the Grain Handling and Marketing segment are generally strongest in quarter one (August – October) and quarter four (May – July) as producers deliver grain into the primary elevator system to reduce on-farm storage limitations and to generate cash flow to finance seeding and harvest expenditures. Agri-products sales of crop protection products, seed and seed treatments, fertilizer, and farm equipment peak in the fourth quarter when crops are seeded. Sales of crop protection products and fertilizer also occur in the first quarter, as producers prepare land before the arrival of inclement winter weather, in anticipation of spring seeding. Earnings and sales in the Agri-food Processing segment are less seasonal. Collectively, the sales patterns of the core Grain Handling and Marketing and Agri-products segments result in the fourth quarter traditionally being the strongest quarter for the company.

2. BASIS OF PRESENTATION

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

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 reflected management's estimate, which was 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 the reorganization and the application of 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.

3. ACCOUNTING POLICIES

a) Principles of Consolidation

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

The company's principal subsidiaries/affiliates are as follows:

Subsidiary/Affiliate Name	Ownership %	Accounting Method
Can-Oat Milling	100%	Consolidation
Prairie Malt Limited	42.4%	Proportionate Consolidation
Western Co-operative Fertilizers Limited	43%	Proportionate Consolidation
Pacific Gateway Terminal Limited*	50%	Proportionate Consolidation

* Subject to final regulatory approval, the company and James Richardson International Limited (JRI) began this joint venture (PGTL) on July 11, 2005. PGTL is a Vancouver grain terminal operation formed on the premise that the company's and JRI's existing, adjacent Vancouver grain terminals would be jointly operated. The joint venture is operating under a temporary order from the Competition Bureau. PGTL is proportionately consolidated with earnings distributed monthly, primarily on the basis of qualifying metric tonnes provided by each party.

b) Revenue Recognition

Revenues from grain handling are recognized upon shipment of grain commodities to the customer. Transactions in which the company acts as agent for the Canadian Wheat Board (CWB) are recorded on a net basis upon performance of service, with only the amount of the CWB tariff included in revenue. Service revenues from grain marketing are recognized when the services are performed. Revenues from agri-products include product sales revenue which are recognized when the customer receives the products and service revenue such as equipment rentals and custom application of product which are recognized when the service is performed. Revenue from agri-food processing associated with the sale of value-added food processing products is recognized upon shipment to the customer. Other agri-food processing revenues are recognized when services are performed.

c) Cash and Cash Equivalents

Cash and cash equivalents include cash, short-term investments and bank indebtedness. Bank indebtedness consists primarily of current outstanding cash tickets and cheques. All components are liquid with maturity of less than three months. Funds on deposit within joint ventures may not be immediately available to the company.

d) Inventories

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

e) Investments

The company accounts for its investments in affiliated companies over which it has significant influence, using the equity basis of accounting, whereby the investments are initially recorded at cost, and subsequently adjusted to recognize the company's share of earnings or losses of the investee companies and reduced by dividends received. The company's non-controlling interest in Prince Rupert Grain Terminal is recorded at a nominal amount. Short-term investments are recorded at the lower of cost and market. Other investments are recorded at cost.

f) Property, Plant and Equipment and Amortization

As a result of the financial reorganization as described in Note 2, property, plant and equipment was adjusted to fair value. Additions to property, plant and equipment are recorded at cost, which includes interest costs incurred on construction of major new facilities prior to the facilities becoming available for operation, less amortization. The company reviews the carrying value of its property, plant and equipment whenever there is a change in circumstance that suggests the carrying value may not be recoverable - any resulting write-downs are charged to earnings. Amortization is provided for property, plant and equipment over their estimated useful lives using primarily the straight-line method.

The rates used are as follows:

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

g) Corporate Income Taxes

The company follows the liability method of tax allocation in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period which includes the substantively enacted date. Future income tax assets are net of a valuation allowance to reflect an amount that the company considers is more likely than not to be realized.

h) Deferred Financing Costs

Costs incurred to obtain financing are deferred and amortized over the term of the associated debt. Amortization is a non-cash charge to interest expense.

i) Deferred Revenue

The majority of deferred revenue relates to payments from producers pursuant to grain storage license agreements. The deferred revenue is amortized into revenue over 40 years to match the approximate life of the related grain storage asset.

j) Post Employment Benefits

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

k) Financial and Other Instruments

The company uses derivative financial and other instruments to manage its exposure to market risks relating to interest rates, commodity prices and foreign currency exchange rates. The company does not use derivative financial instruments for speculative trading purposes.

i) Foreign Exchange Contracts - The company enters into forward foreign exchange and futures contracts to offset and manage exposure to foreign currency exchange risk resulting from transactions denominated in foreign currencies. Certain areas of the company not related to the handling and marketing of grain follow the Hedging Relationships guidance of the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline (AcG-13). Under hedge accounting the gains, losses, revenues and expenses associated with a hedged item and the hedging instrument are recognized in income in the same period. The company regularly assesses hedging transactions to ensure they are highly effective in offsetting changes in fair values or cash flows of hedged items. In the remaining areas of the company forward foreign exchange and futures contracts are marked-to-market and unrealized gains and losses are recognized in income in the period in which they occur.

ii) Commodity Futures Contract Transactions - The company is involved in the purchase, sale and processing of raw agricultural commodities. Agricultural commodities are subject to price fluctuations due to numerous unpredictable factors that may create price risk. The company enters into derivative contracts, primarily exchange-traded futures and options, with the objective of managing exposure to adverse price movements in agricultural commodities. The unrealized gains and losses for commodity futures contracts are recognized in income in the period in which they occur.

l) Foreign Currency Transactions

Monetary assets and liabilities are translated into Canadian dollars at the rate in effect at the balance sheet date; non-monetary items are translated at the rate in effect on the transaction date. Exchange gains or losses arising from translations are recognized in income in the period in which they occur.

m) Accretion

i) Senior Subordinated Notes and Convertible Subordinated Notes - At the time of the January 31, 2003 restructuring the company recorded both the Senior Subordinated Notes and the Convertible Subordinated Notes at their estimated fair value. These estimated fair values represented a substantial discount to the face values of these Notes.

The accretion of the Senior Subordinated Notes and the debt component of the Convertible Subordinated Notes are recorded as a non-cash charge to interest expense, whereas the accretion of the equity component of the Convertible Subordinated Notes is recorded as a non-cash charge to retained earnings.

ii) Asset Retirement Obligations (ARO) - Accretion is recorded as an increase to the carrying amount of the ARO due to the passage of time with an offsetting non-cash charge to operating costs (see Note 3pi).

n) Stock-Based Compensation Plan

Stock based options granted are recorded under the fair value based method of accounting. The company records an expense over the vesting period of options granted based on the fair value method as determined by the Black-Scholes pricing model, and records the offsetting amounts as a credit to contributed surplus.

o) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the company may undertake in the future. Management believes that the estimates are reasonable, however, actual results could differ from these estimates.

p) Changes in Accounting Policies

i) Asset Retirement Obligations - Effective August 1, 2004, the company adopted the new CICA standard regarding Asset Retirement Obligations (ARO's) (CICA 3110). This standard applies to the recognition and measurement of legal obligations on the acquisition, construction, development or normal use of property, plant or equipment owned by the company or its affiliates. The standard requires the obligation be recognized in the financial statements in the period incurred provided a reasonable estimate of the fair value can be determined. As time passes, accretion is charged to earnings to recognize the fair value of the obligation.

Under previous generally accepted accounting principles, a joint venture, which formerly manufactured phosphate and nitrate fertilizers, recorded a reclamation provision in 1987 as its estimate of future removal and site restoration costs. The assets related to this former manufacturing operation have been retired and therefore are reflected at nil value on these statements. The previously established reclamation provision encompassed obligations related to the demolition of the manufacturing facilities and the reclamation of the phosphogypsum stacks.

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

The impact of retroactively transitioning to the new ARO standard is as follows:

- No impact on reclamation provision or retained earnings at July 31, 2004
- Negligible impact on earnings for the both fiscal 2005 and fiscal 2004

ii) 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 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. Hedge accounting may be applied 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 assessing the effectiveness of the hedge. There also needs to be a method for recognizing in income the gains and 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 adopting hedge accounting to the fiscal 2004 annual financial statements is negligible. For hedgable grain inventories, the company continues to follow the principles outlined in Note 3d.

4. SHORT-TERM INVESTMENTS

	2005	2004
Saskatchewan Wheat Pool Inc.	\$ 29,000	\$ -
Subsidiaries and proportionate share of joint ventures	50,264	25,999
	<u>\$ 79,264</u>	<u>\$ 25,999</u>

5. ACCOUNTS RECEIVABLE

	2005	2004
Trade accounts, net	\$ 59,553	\$ 74,449
Canadian Wheat Board	47,994	71,266
Other accounts	19,555	18,519
	<u>\$ 127,102</u>	<u>\$ 164,234</u>

6. INVENTORIES

	2005	2004
Grain	\$ 58,485	\$ 31,997
Agri-products	47,591	59,440
Agri-food Processing	11,340	13,450
	<u>\$ 117,416</u>	<u>\$ 104,887</u>

7. INVESTMENTS

	2005		2004	
Investments in significantly influenced companies – equity method	\$	2,148	\$	2,157
Other long-term investments – cost method		3,289		2,894
	\$	5,437	\$	5,051

8. PROPERTY, PLANT AND EQUIPMENT

	2005		2004	
	2005	Accumulated Amortization	2004	Accumulated Amortization
Sites, trackage and paving	\$ 9,978	\$ 979	\$ 8,786	\$ 487
Buildings	115,580	11,250	113,314	6,661
Machinery and equipment	181,632	48,353	167,515	28,448
Vehicles	113	83	120	48
Construction in progress	4,851	-	12,751	-
	312,154	\$ 60,665	302,486	\$ 35,644
Accumulated amortization	(60,665)		(35,644)	
Net book value	\$ 251,489		\$ 266,842	

Amortization of property, plant and equipment related to continuing operations for the year ended July 31, 2005 is \$26.1 million (2004 - \$24.5 million).

9. OTHER LONG-TERM ASSETS

	2005		2004	
	2005	Accumulated Amortization	2004	Accumulated Amortization
Deferred pension assets	\$ 5,260	\$ -	\$ 5,331	\$ -
Deferred financing costs	4,659	518	-	-
Other	5,973	552	3,070	182
	15,892	\$ 1,070	8,401	\$ 182
Accumulated amortization	(1,070)		(182)	
Net book value	\$ 14,822		\$ 8,219	

Amortization of deferred financing costs of \$0.5 million (2004 – nil) is included in interest expense. Amortization of other assets of \$0.4 million (2004 - \$0.1 million) is included in amortization expense.

10. BANK INDEBTEDNESS

	2005		2004	
Saskatchewan Wheat Pool Inc.	\$	6,030	\$	10,844
Subsidiaries and proportionate share of joint ventures		2,030		2,245
	\$	8,060	\$	13,089

11. SHORT-TERM BORROWINGS

	2005	2004
Saskatchewan Wheat Pool Inc.	\$ -	\$ -
Subsidiaries and proportionate share of joint ventures	392	1,501
	<u>\$ 392</u>	<u>\$ 1,501</u>

The company, as part of a refinancing initiative, replaced its asset backed revolving credit facility on March 11, 2005, with a new three year \$250 million senior secured asset backed revolving loan with a syndicate of financial institutions. The facility matures in March 2008 and is secured by a first charge on inventory and accounts receivable and a second charge on all other assets of the company. Interest is payable monthly at prime plus 1.5%.

At July 31, 2005, the company had outstanding letters of credit and similar instruments of \$31.1 million related to operating an agri-business (2004 - \$30.6 million). These instruments effectively reduce the amount of cash that can be drawn on the revolving credit facility.

At July 31, 2005, availability under the asset backed revolving loan facility was \$42.2 million (2004 - \$68.0 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.

12. MEMBERS' DEMAND LOANS

Members' demand loans are funds loaned to the company by non-institutional investors and employees. At July 31, 2005, the loans bear interest at 3.6 % (2004 – 5.25%).

The loans are secured by a second ranking charge against the company's assets which are subordinate to the revolving credit facility and rank equally with the Senior Subordinated Notes and the members' term loans.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2005	2004
Trade accounts payable	\$ 39,022	\$ 49,243
Trade deferred cash tickets	24,277	41,318
Accrued liabilities	38,315	46,966
Other accounts payable	13,705	13,218
	<u>\$ 115,319</u>	<u>\$ 150,745</u>

At July 31, 2005 certain trade payables and related inventory with agri-product suppliers were subject to a purchase money security interest in the aggregate of \$4.6 million (2004 - \$4.8 million).

14. LONG-TERM DEBT

	2005 Weighted Average Interest Rate*	2005 Carrying Value	2004 Weighted Average Interest Rate*	2004 Carrying Value
Senior Secured Bank Term Loan (a)		\$ -	8.0%	\$ 80,251
Senior Subordinated Notes (b)	8.0%	139,929	8.0%	132,188
Convertible Subordinated Notes – debt component (c)		-	9.0%	27,735
Members' term loans	7.2%	4,823	7.4%	4,300
Sub-total		144,752		244,474
Subsidiaries' and proportionate share of joint ventures' debt:				
Secured	4.2%	9,637	4.8%	13,743
Unsecured – interest free		-		1,606
Sub-total		9,637		15,349
Total consolidated long-term debt		154,389		259,823
Less portion due within one year:				
Senior Secured Bank Term Loan (a)		-		1,521
Senior Subordinated Notes (b)		-		-
Members' term loans		1,354		659
Subsidiaries' and proportionate share of joint ventures' debt		4,107		5,713
Long-term debt due within one year		5,461		7,893
Total long-term debt		\$ 148,928		\$ 251,930

* Weighted average interest rates are based on the face value of the debt instrument.

a) Senior Secured Bank Term Loan

- The company, as part of a refinancing initiative, replaced its Senior Secured Bank Term Loan, effective March 14, 2005, with \$100 million of Floating Rate Senior Secured Extendible Notes (the "Notes") with an institutional investor. These Notes were secured by a first charge on the company's fixed assets and a second charge on working capital. Interest was payable monthly at LIBOR plus 6.5%. On June 7, 2005, the company prepaid the Notes without penalty.

b) Senior Subordinated Notes

- At the time of the January 31, 2003 restructuring, the Senior Subordinated Notes were recorded at estimated fair value. The company is accreting up to their \$150.0 million face value through monthly present value adjustments (accretion) to the Senior Subordinated Notes with a corresponding non-cash charge to increase interest expense.
- Interest is payable monthly into a trust and distributed quarterly. Prior to July 31, 2005, interest is at 8% of the face value, thereafter interest is at 12%. The face value at July 31, 2005 is \$150.0 million (2004 - \$150.0 million).
- No principal payments are required until maturity on November 29, 2008.
- The company may redeem the Notes prior to maturity at the following premiums of the principal amount then outstanding: 104% from January 1, 2005 to December 31, 2005; 102% from January 1, 2006 to December 31, 2006; and 101% from January 1, 2007 to November 28, 2008.
- Secured by a second ranking charge against the company's assets – subordinate to the revolving credit facility and ranking equally with the members' demand loans and members' term loans.
- The fair market value of Senior Subordinated Notes at July 31, 2005 was approximately \$156.4 million based upon the quoted market price (2004 - \$151.5 million).

c) Convertible Subordinated Notes (see also Note 16)

The Convertible Subordinated Notes were converted on March 31, 2005 into a new class of common shares. The remainder of the points in this section provides some of the historical background applicable to the comparative Convertible Subordinated Notes information in these statements.

- At the time of the January 31, 2003 restructuring, the company separated the Convertible Subordinated Notes into their debt and equity components, according to their substance. The debt component was estimated at the present value of the cash interest expected to be paid. The company was accreting up to that initial estimate through monthly present value adjustments (accretion) to the Convertible Subordinated Notes with a corresponding charge to increase interest expense. The equity component was being accreted such that the value as of November 29, 2008, (the day before the company's conversion right) would reflect the face value and accrued interest not paid in cash of the remaining, unconverted, Convertible Subordinated Notes. This accretion was recorded as a reduction of retained earnings (deficit).
- As part of the March 31, 2005 conversion, the former Class B Shares were consolidated at a rate of one new common share for 20 Class B Shares and the Convertible Subordinated Noteholders agreed to exchange their Notes at the rate of 131.58 new common shares per \$1,000 of principal. Prior to March 31, 2005, the Convertible Subordinated Notes were convertible by the holder into Class B Non-voting Shares of the company at the pre 1:20 share consolidation rate of approximately 2,227.2 shares (111.36 shares post conversion) per \$1,000 of Note principal at any time prior to November 30, 2008. Under the new conversion rate the Convertible Subordinated Noteholders incrementally received approximately 3.5 million more shares than under the former conversion rate. These incremental shares were valued at \$33.8 million and are reflected as part of the share conversion outlined in Note 16, as well as an offsetting charge to retained earnings.

A continuity of the debt component of the convertible notes is:

Convertible Subordinate Notes – debt component – July 31, 2003	\$ 23,935
Interest Accretion	3,800
Convertible Subordinate Notes – debt component – July 31, 2004	<u>27,735</u>
Interest Accretion	2,863
Convertible Subordinated Notes – debt component – March 31, 2005	<u>30,598</u>
Refinance conversion	<u>(30,598)</u>
Convertible Subordinated Notes – debt component – July 31, 2005	<u>\$ -</u>

d) Other

- The sale of certain collateral for proceeds in excess of \$10 million would necessitate a partial redemption of the Senior Subordinated Notes until redeemed in full.
- Members' term loans are secured and consist of one-year to seven-year loans with non-institutional investors and employees. Interest is payable semi-annually at interest rates which vary from 4.20% to 9.0%. The fair market value of members' term loans at July 31, 2005 was approximately \$5.1 million (2004 - \$4.4 million).
- The subsidiaries' and the proportionate share of joint ventures' debts bear interest at fixed and variable rates. The debts mature in years 2006 to 2007. The debts are secured by certain assets and some are subject to meeting certain covenants. The fair market value at July 31, 2005 of subsidiaries' and the proportionate share of joint ventures' debts was approximately \$9.6 million (2004 - \$15.2 million).
- The company does not guarantee nor does it have responsibility for the repayment of the subsidiaries' or joint ventures' debts.

- The maturities of long-term debt are as follows:

	Saskatchewan Wheat Pool Inc.	Subsidiaries & proportionate share of joint ventures	Total
2006	\$ 1,354	\$ 4,107	\$ 5,461
2007	2,498	5,530	8,028
2008	253	-	253
2009	150,173	-	150,173
2010	441	-	441
Subsequent Years	104	-	104
	\$ 154,823	\$ 9,637	\$ 164,460

15. OTHER LONG-TERM LIABILITIES

	2005	2004
Asset retirement obligations (a)	\$ 11,477	\$ 12,645
Deferred revenue	9,182	10,365
Retirement allowances	5,680	5,398
Loan loss provision (b)	4,931	4,952
Pension	3,734	3,732
Other	2,420	3,888
	\$ 37,424	\$ 40,980

- a) In 1987, a joint venture which manufactured phosphate and nitrate fertilizers closed two of its facilities. The asset retirement obligations represents the company's proportionate share of the best estimate by management of the joint venture of the legal obligations that it would incur during the reclamation process. Reclamation involves the demolition of the manufacturing facilities and the reclamation of the phosphogypsum stacks. Uncertainty exists regarding the estimation of future decommissioning and reclamation costs.

At July 31, 2005, the company's proportionate share of the undiscounted cash flow required to settle the asset retirement obligations is approximately \$14.9 million, which is expected to be settled over the 2006 through 2014 period. The credit adjusted risk-free rates at which the estimated cash flows have been discounted range from 4.00% to 5.15%.

- b) Under the terms of an agreement, a financial institution provides credit for the purchase of crop inputs to producer customers of the company. Loans are stratified based on program years. Producer loans are generally due to this financial institution on January 31 following the program year. Loans under the program are secured by a general security agreement granted by the customer covering the crop and farm assets.

The company collects loan payments from producer customers in trust for this financial institution and forwards collections the next business day.

Under the agreement, the company has agreed to reimburse this financial institution for loan losses in excess of a reserve (see the table below). Reimbursement amounts are payable to this financial institution at the end of December or eleven months following the due date of the producers' loan. When the company remits payments for delinquent accounts to the financial institution with respect to this program, the delinquent account is assigned to the company and the company is then to collect the amounts payable by the customer. Subsequent collections of these delinquent accounts are allocated to the company and the financial institution in accordance with each party's pro-rated share of the collection proceeds. The company expects that loan losses will not differ significantly from those provided for in these financial statements.

			July 31 2005	July 31 2004
	Producer Due Date - January 31	Company Reimbursement Date - December 31	Producer Balance Outstanding	Producer Balance Outstanding
2003 loan program	2004	2004	\$ -	\$ 4,652
2004 loan program	2005	2005	10,980	157,940
2005 loan program	2006	2006	174,002	-
			\$ 184,982	\$ 162,592

	July 31 2005	July 31 2004
Total company provision, net of loan loss share	\$ 7,401	\$ 8,312
Portion due within one year	(4,082)	(3,810)
Long-term portion, net of loan loss share	\$ 3,319	\$ 4,502

16. SHARE CAPITAL

Authorized

On February 7, 2005, the company's Board approved a proposed recapitalization of its Class A Voting Shares, Class B Non-voting Shares and Convertible Subordinated Notes and a subsequent rights offering to all Common Shareholders. On February 21, 2005, the required majority of delegates, representing the former Class A Shareholders, approved the company's recapitalization plan. Through separate meetings on March 23, 2005, both the former Class B Non-voting Shareholders and Convertible Subordinated Noteholders approved the recapitalization plan. The recapitalization plan included:

- The continuance of the company as a business corporation under the *Canada Business Corporations Act* involving the consolidation of the Class "A" Voting Shares and the Class "B" Non-voting Shares of the company into one new class of common shares. The Class "A" Shareholders were entitled to receive 3.62 new common shares or \$25 in cash while the Class "B" Shareholders received one new common share for every 20 Class "B" Non-voting Shares they held.
- The early conversion of the company's Convertible Subordinated Notes into the new class of common shares. The Convertible Subordinated Notes were exchanged for 131.58 common shares per \$1,000 of principal.

On April 22, 2005, after the continuance, 35,071,559 rights were issued to the holders of all Common Shares of record. The rights were issued for nil consideration with an expiration date of May 24, 2005. Each right entitled the holder the right to purchase one and one-third additional common shares in the company at the discounted subscription price of \$3.21 per share.

On May 27, 2005, the company issued 46,762,078 common shares under the rights offering, generating gross proceeds of approximately \$150.1 million. The company has repaid in full the \$100 million of Floating Rate Senior Secured Extendible Notes with the proceeds from the share issuance. The remaining proceeds were used for general corporate purposes, primarily working capital for the purchase of grains, oilseeds and agri-products inventory.

The professional and other costs associated with the continuance and the rights offering were approximately \$13.0 million. In accordance with the capital nature of these recapitalization events, the associated costs have been reflected as a charge to shareholders' equity and reflected in the retained earnings (deficit) of the company.

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

The following table summarizes the Common Voting, Member Class A Voting and Class B Non-voting share capital for the years ended July 31, 2005 and July 31, 2004. The number of Class B Non-voting Shares issued and outstanding have been restated to reflect the one for 20 share consolidation.

COMMON VOTING SHARES

Authorized

Unlimited Common Voting Shares.

CLASS A VOTING SHARES

Previously Authorized until March 31, 2005

Unlimited Class A Voting Shares par value \$25.

Class A Voting Shares were held by farmer-members and were redeemable at the option of the shareholder at their par value.

CLASS B NON-VOTING SHARES

Previously Authorized until March 31, 2005

Unlimited Class B Non-voting Shares.

	<u>Common Voting Shares</u>		<u>Class A Voting Shares</u>		<u>Class B Non-voting Shares</u>	
	<u>Number*</u>	<u>Amount</u>	<u>Number*</u>	<u>Amount</u>	<u>Number*</u>	<u>Amount</u>
Balance, July 31, 2003	-	\$ -	71,658	\$ 1,791	8,605,352	\$ 59,417
Net Redemptions \ Conversions	-	-	(332)	(8)	3,005,586	21,870
Balance, July 31, 2004	-	-	71,326	1,783	11,610,938	81,287
Net Redemptions \ Conversions	-	-	(20,947)	(524)	683,913	5,611
Management Options exercised	-	-	-	-	2,606	16
Conversion of Class A Shares	182,371	1,259	(50,379)	(1,259)	-	-
Conversion of Class B Shares	12,297,457	86,914	-	-	(12,297,457)	(86,914)
Conversion of Convertible Subordinated Notes – (see Note 14)	22,591,731	**201,203	-	-	-	-
Management Options exercised	500	3	-	-	-	-
Share issuance	46,762,078	150,106	-	-	-	-
Balance, July 31, 2005	81,834,137	\$ 439,485	-	\$ -	-	\$ -

*Number of shares are not shown in thousands

**Dollar value includes

Convertible Subordinated Notes

-Equity component	\$136,759
-Debt component	30,598
-Inducement premium	33,846
	<u>\$201,203</u>

a) Stock Options

i) Management Stock Option Plan

During fiscal 2004 this plan became inactive. Options previously granted under the Management Stock Option Plan were approved by the Board of Directors. To date, 187,475 shares have been allocated to the plan. Under this plan options are exercisable in increments over a maximum of 10 years beginning on the first anniversary date of the option grant. Options granted under this plan primarily vest at a rate of 25% per year commencing on the first anniversary date of the grant.

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

ii) New Members' Stock Option Plan

On July 31, 2000, this plan was closed to new applicants. At July 31, 2005, there are no outstanding options under this plan.

Stock based compensation expense, based on the fair value of options vested in the year, was determined by the Black-Scholes option pricing model with the following assumptions: risk free rate 4.40% to 4.85%, dividend yield 0%, a volatility factor of the expected market price of the company's shares of 100, and a weighted average expected option life of five years. For the year ended July 31, 2005 - \$0.1 million was expensed as stock based compensation (2004 - \$0.1 million).

A continuity of the stock options is as follows:

	2005		2004	
	# of Options *	Weighted Average Exercise Price *	# of Options *	Weighted Average Exercise Price *
Outstanding, beginning of period	113,173	\$ 85.60	120,565	\$ 94.20
Granted	-	\$ -	16,527	\$ 6.00
Exercised	(3,106)	\$ 5.90	-	\$ -
Cancelled	<u>(20,110)</u>	\$ 101.46	<u>(23,919)</u>	\$ 187.00
Outstanding, end of period	<u>89,957</u>	\$ 84.86	<u>113,173</u>	\$ 85.60
Options exercisable, end of period	72,164	\$ 99.01	74,394	\$ 110.60

Of the outstanding stock options at July 31, 2005, 13% have an exercise price of \$6.50 or less, the remainder have an exercise price at or greater than \$31.00. Of the options exercisable at July 31, 2005, 4% have an exercise price of \$6.50 or less, the remainder have an exercise price at or greater than \$31.00. At July 31, 2005, the shares closed at \$6.63.

* The exercise prices and number of options referred to above are not in thousands. The stock options and exercise prices have been restated to reflect the one for 20 share consolidation.

b) Earnings (Loss) Per Share

	2005		2004	
Net Earnings	\$	12,089	\$	5,019
Less: Earnings from continuing operations		7,017		17,940
Recovery (loss) from discontinued operations (numerator – discontinued operations)	\$	5,072	\$	(12,921)
Earnings from continuing operations	\$	7,017	\$	17,940
Share recapitalization inducement premium		(33,846)		-
Accretion of equity component of Convertible Subordinated Notes		(13,735)		(19,842)
Numerator – continuing operations	\$	(40,564)	\$	(1,902)
Net Earnings	\$	12,089	\$	5,019
Share recapitalization inducement premium		(33,846)		-
Accretion of equity component of Convertible Subordinated Notes		(13,735)		(19,842)
Numerator – net loss	\$	(35,492)	\$	(14,823)
Denominator for basic and diluted per share amounts: Weighted average number of shares outstanding		28,103		10,333
Basic and diluted loss per share:				
Continuing operations	\$	(1.44)	\$	(0.18)
Discontinued operations	\$	0.18	\$	(1.25)
Net loss	\$	(1.26)	\$	(1.43)

There is no dilutive effect from the exercise of options related to stock option plans or, in periods where the Convertible Subordinated Notes existed, to the potential conversion of these notes, due to the effect of the share capital inducement premium and the accretion of the equity component of the Convertible Subordinated Notes. The weighted average number of shares outstanding has been restated, for all periods ending prior to March 31, 2005, to reflect the one for 20 share consolidation.

17. CONVERTIBLE SUBORDINATED NOTES – EQUITY COMPONENT

As depicted in Notes 14c and 16, the Convertible Subordinated Notes were converted into Common Voting Shares on March 31, 2005.

Balance at July 31, 2003	\$	130,663
Accretion to retained earnings		19,842
Conversions in the year ended July 31, 2004 with a face value of \$27.0 million		(21,870)
Balance at July 31, 2004		128,635
Accretion to retained earnings		13,735
Conversions in the period ended March 31, 2005 with a face value of \$6.1 million (see Note 16)		(5,611)
Balance at March 31, 2005	\$	136,759
Recapitalization conversions with a face value of \$171.7 million, into Common Voting Shares (see Note 16)		(136,759)
Balance at July 31, 2005	\$	-

18. POST EMPLOYMENT BENEFITS

a) Defined Benefit Plans

The company contributes to three defined benefit plans, which are based on years of service and final average salary: Hourly Employee's Retirement Plan (Hourly), Out of Scope Defined Benefit Pension Plan (OSDB), and Supplementary Executive Retirement Plan (SERP). The company is on a contribution holiday for the Hourly and OSDB plans due to income tax regulations relating to surpluses in these pension plans. These plans have bridged benefits that allow for early retirement. The plan assets of the Hourly and OSDB plans at July 31, 2005, are invested in the following asset classes: Canadian equities – 34 %; Global equities –24 %; bonds –33 %; other –9 %. The SERP is unfunded and the employer makes contributions as the retirement benefits are paid.

The retirement allowance benefit is a closed benefit plan. Certain groups of the company's employees are eligible for a retiring allowance if, as of February 1, 2000, the employee had 15 or more years of service. Those employees currently qualifying for this plan will receive a lump-sum-payment upon retirement based on a formula comprising of years of service and salary in effect at retirement.

The consolidated information presented for 2005 in the table below is based on actuarial valuation results as of December 31, 2004 with extrapolations to July 31, 2005. Consolidated information presented for 2004 is based on actuarial valuation results as of January 31, 2003 with extrapolations to July 31, 2004. The projected accrued benefit actuarial cost method pro-rated on service is used for this valuation. The assets are valued at market value on July 31, 2005 and July 31, 2004. The effective date of the next required actuarial valuation is December 31, 2007.

	Pension Benefit Plans		Retirement Allowances	
	2005	2004	2005	2004
Plan Assets				
Fair value, at beginning of period	\$ 245,700	\$ 234,494	\$ -	\$ -
Actual return on plan assets	35,189	27,931	-	-
Employer contributions	270	258	239	213
Employees' contributions	252	275	-	-
Benefits paid	(15,519)	(17,258)	(239)	(213)
Fair value, at end of period	265,892	245,700	-	-
Accrued Benefit Obligation				
Balance, beginning of period	189,384	186,702	4,934	5,049
Current service cost	1,389	1,546	176	211
Interest cost	10,976	11,665	345	351
Benefits paid,	(15,519)	(17,258)	(239)	(213)
Actuarial loss (gain)	14,046	6,729	(196)	(464)
Balance, end of period	200,276	189,384	5,020	4,934
Funded status-plan surplus (deficit)	65,616	56,316	(5,020)	(4,934)
Unamortized net actuarial gain	(17,010)	(11,358)	(660)	(464)
Accrued benefit asset (liability)	48,606	44,958	(5,680)	(5,398)
Valuation allowance	(46,818)	(43,169)	-	-
Accrued benefit asset (liability), net of valuation allowance	1,788	1,789	(5,680)	(5,398)
Add: accrued benefit liability of proportionately consolidated companies	(262)	(190)	-	-
Consolidated accrued benefit asset (liability), net of valuation allowance	\$ 1,526	\$ 1,599	\$ (5,680)	\$ (5,398)

The consolidated accrued benefit asset (liability), net of valuation allowance, is reflected in these statements as follows:

	Pension Benefit Plans		Retirement Allowances	
	2005	2004	2005	2004
Long-term assets (Note 9)	\$ 5,260	\$ 5,331	\$ -	\$ -
Long-term liabilities (Note 15)	(3,734)	(3,732)	(5,680)	(5,398)
Consolidated accrued benefits asset (liability), net of valuation allowance	\$ 1,526	\$ 1,599	\$ (5,680)	\$ (5,398)

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

	Pension Benefit Plans		Retirement Allowances	
	2005	2004	2005	2004
Discount rate	5.50%	6.00%	5.50%	6.00%
Expected long-term rate of return on plan assets	6.50%	7.00%	-	-
Rate of compensation increase	3.50%	3.70%	3.75%	4.00%

	Pension Benefit Plans		Retirement Allowances	
	2005	2004	2005	2004
Current service cost	\$ 1,137	\$ 1,271	\$ 176	\$ 211
Interest cost	10,976	11,665	345	351
Expected return on plan assets	(15,491)	(15,839)	-	-
Valuation allowance provided against accrued benefit asset	3,649	4,042	-	-
	271	1,139	521	562
Net benefit expense of proportionately consolidated companies	302	264	-	-
Net benefit expense	\$ 573	\$ 1,403	\$ 521	\$ 562

b) Defined Contribution Plans

The company, not including subsidiaries and affiliates, contributes to three defined contribution plans of which one is a multi-employer plan. In accordance with these plans, contributions from employees range from 2.19% to 5.0% of their earnings, while contributions from the company range from 2.19% to 6.0% of each plan member's earnings. The company's total contribution expense for the year ended July 31, 2005, including the subsidiaries' and proportionate share of joint ventures' defined contribution plans, is \$3.5 million (2004 - \$3.2 million).

One of the plans that the company contributes to is the Saskatchewan Wheat Pool/Grain Services Union Pension Plan, a closed negotiated cost plan providing defined benefits in respect of approximately 1,400 former employees and approximately 600 current employees. A Board of Trustees consisting of equal representation from the company and the Grain Services Union (GSU) administers the Plan. Since the cost is negotiated, the company accounts for this Plan as a defined contribution plan; however it must be valued for regulatory purposes as a defined benefit plan. Beginning with the fiscal 2005 Second Quarter Report, the company identified an estimated potential deficit of \$1.9 million on a going concern basis and a solvency deficit of \$28 million on wind-up as at December 31, 2004. The Plan has assets of approximately \$238 million. The company and the union have met to discuss how to address the solvency deficit, but have been unable to reach any agreement. The Office of the Superintendent of Financial Institutions ("OSFI") is aware of the situation and has met with the parties. The next required actuarial valuation for funding purposes will be performed as at December 31, 2005.

On September 22, 2005, OSFI expressed concern about the solvency of the Plan and based on its own financial tests ordered that transfers from the Plan made by members exercising portability rights be restricted to 80% of the accrued value of their benefits. The remaining portion would be paid out over the following five year period, assuming the Plan does not wind-up.

A recent actuarial estimate indicates that the Plan could have a going concern surplus of approximately \$8 million as at December 31, 2005, and a solvency deficit of approximately \$50 million primarily as a result of the lower rates of return on long-term bonds. The solvency estimate is based on current rates of return on long-term bonds that are 0.75% lower than those at December 31, 2004. This preliminary estimate is based on numerous assumptions. The results of the formal valuation at December 31, 2005 may vary materially from this estimate due to differences between actual and estimated interest rates, asset returns and other assumptions.

Pension regulations will require any solvency deficit at December 31, 2005 to be addressed over a five-year period through quarterly installments plus interest. Assuming a \$50 million solvency deficit, additional contributions would be approximately \$2.8 million per quarter until termination. Resolving the deficit may be accomplished by making one or more of the following changes to the Plan: amending the Plan structure, reducing benefits, increasing employer contributions or increasing employee contributions. If the GSU and the Company cannot agree to make the necessary changes, the Company has received advice from external legal counsel that the likely outcome would be the termination of the Plan.

The Company is in compliance with all of its legal obligations in respect of the Plan including its annual negotiated financial obligation of approximately \$1.3 million. There is a risk that the company may ultimately be responsible for any increase in contributions required by the formal valuation as at December 31, 2005. The company's position is that it is not responsible for any payments beyond those negotiated with GSU. The ultimate outcome of these matters and the results of the formal actuarial valuation are currently uncertain and accordingly, no provision has been recorded for this risk in these consolidated financial statements.

19. DISCONTINUED OPERATIONS

During fiscal 2004, the company exited its Heartland Pork, Heartland Feeds and Aquaculture operations. The company does not have any continuing involvement in these operations. The results of these operations for the prior periods have been classified as discontinued operations, in accordance with CICA 3475 Disposal of Long-Lived Assets and Discontinued Operations.

On May 21, 2004, Heartland Pork and Heartland Feeds were sold. On July 26, 2004, the Aquaculture operation was sold. The cash proceeds from the divestitures were \$22.1 million. During the year ended July 31, 2004, the senior secured bank term loan was reduced by \$10.3 million. The balance of the proceeds was used to reduce short-term borrowings. During the year ended July 31, 2005, the company repaid an additional \$1.5 million of term debt upon final settlement.

The discontinued operations were located in Saskatchewan and consisted of seven pork barns, one feedmill operation and one aquaculture operation. The company decided to exit these business lines because of disappointing operating results and industry risks.

The fiscal 2005 net recoveries from discontinued operations include approximately \$3.8 million in after-tax recoveries related to filings under the Canadian Agricultural Income Stabilization Program (CAIS), a joint federal/provincial risk management program. The CAIS filings represent a recovery of a portion of the operating losses incurred by these discontinued operations in prior years. The balance of the net earnings for fiscal 2005 primarily relate to recoveries against the loss recorded last year.

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

The breakdown of discontinued operations presented in the consolidated statements of earnings and retained earnings (deficit) is as follows:

	2005	2004
Recoveries (losses) before corporate taxes	\$ 7,474	\$ (18,966)
Corporate taxes (expense) recovery		
Current	71	(53)
Future	(2,473)	6,098
Total corporate tax (expense) recovery	(2,402)	6,045
Net recoveries (losses) from discontinued operations *	\$ 5,072	\$ (12,921)

* Net recoveries (losses) from discontinued operations include:

Sales, service and other revenues	\$ 6,279	\$ 41,930
Gain (loss) on divestiture – after tax	\$ 859	\$ (8,964)

20. PROVISION RECOVERIES – PRIOR YEAR

The provision recoveries in fiscal 2004 consist of the following:

- a) On June 15, 2004, the company divested of its 50% ownership in Comercializadora La Junta, S.A. de C.V. (CLJ), a port terminal in Manzanillo, Colima, Mexico. As a result of the sale, the company is no longer responsible for certain provisions that were recognized in 2002 when the company wrote-off its investment in this operation; therefore the company recorded \$5.2 million as a one-time recovery and \$2.4 million as operating income. There were no significant cash proceeds resulting from the sale of this operation.
- b) During fiscal 2004, the company recorded a \$1.0 million recovery of a previous demolition provision, which in management's opinion is no longer required.

21. INTEREST EXPENSE

	2005	2004
Interest on long-term debt	\$ 18,898	\$ 21,495
Other interest	2,791	7,093
Write-off of debt issuance costs	3,851	-
Interest accretion	10,604	10,496
Amortization of deferred financing costs	906	-
	\$ 37,050	\$ 39,084

22. CORPORATE INCOME TAXES

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

	2005	2004
Current	\$ 1,506	\$ (1,142)
Future	(1,503)	13,093
	\$ 3	\$ 11,951

b) The variation between the provision calculated at the statutory income tax rate and the company's provision is explained as follows:

	2005	2004
Basic federal and provincial tax rate	\$ 2,562	\$ 11,508
Recoveries and adjustments relating to prior years	(2,824)	-
Effect of tax rate change on future taxes	1,291	-
Amounts not taxable for income tax purposes	(1,679)	-
Capital taxes	776	1,050
Other	(123)	(607)
	\$ 3	\$ 11,951

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

	2005	2004
Future income tax assets:		
Undepreciated capital cost in excess of net book value	\$ 70,556	\$ 87,741
Losses available for carry-forward	88,985	79,723
Restructuring and refinancing costs not deducted for tax	7,583	6,964
Senior Subordinated Notes	(3,676)	(6,590)
Convertible Subordinated Notes - debt component	-	2,627
Other	8,693	10,623
Sub-total	172,141	181,088
Valuation allowance*	(69,393)	(84,325)
Total future income tax assets	\$ 102,748	\$ 96,763

* The valuation allowance represents management's best estimate of the allowance necessary to reflect the future income tax assets at an amount that the company considers is more likely than not to be realized. Included in the \$102.7 million future income tax asset (2004 - \$96.8 million) is an adjustment of \$15.6 million (2004 - \$23.0 million) made directly to retained earnings for a decrease in the future income tax assets' valuation allowance.

The amounts for undepreciated capital cost in excess of net book value in 2004 and the valuation allowance for 2004 have both been reduced by \$25.2 million related to the tax position of an investment. There is no impact to the statement of earnings as a result of this adjustment.

The future income tax assets are classified in the consolidated financial statements as:

	2005	2004
Current future income tax assets	\$ 78	\$ 1,198
Long-term future income tax assets	102,670	95,565
	<u>\$ 102,748</u>	<u>\$ 96,763</u>
Future income tax liabilities:		
Net book value in excess of undepreciated capital cost	\$ 7,921	\$ 10,306
Reclamation costs not deductible for tax	(4,797)	(4,471)
Other	435	109
Total future income tax liabilities	<u>\$ 3,559</u>	<u>\$ 5,944</u>
Classified in the consolidated financial statements as:		
Current future income tax liabilities	\$ -	\$ -
Long-term future income tax liabilities	3,559	5,944
	<u>\$ 3,559</u>	<u>\$ 5,944</u>

The expiry dates associated with the losses available for carry-forward are:

	Losses Available for Carry-forward
2006	\$ 1,880
2007	1,696
2008	76,845
2009	40,040
2010	50,500
2011-2014	72,836
	<u>\$ 243,797</u>

- d) In addition, at July 31, 2005, the company has net capital loss carry-forwards of \$25.5 million (2004 - \$25.5 million). These losses can be carried forward indefinitely and applied against taxable capital gains realized. The future tax benefits of these losses have not been recognized in these financial statements.

The future benefit of investment tax credits has not been recognized in these financial statements.

23. FINANCIAL AND OTHER INSTRUMENTS AND HEDGING

Risk Management

The company is exposed to changes in commodity prices, foreign exchange rate, and interest rates. The company utilizes a number of financial instruments to manage these exposures. Financial instruments are not used for trading or speculative purposes. The company mitigates risk associated with these financial instruments through Board-approved policies, limits on use and amount of exposure, internal monitoring, and compliance reporting to senior management and the Board.

a) Commodity Price Risk

The company uses exchange-traded futures and options contracts to minimize the effects of changes in the prices of hedgable agricultural commodities on its agri-business inventories and agricultural commodities forward cash purchase and sales contracts. Exchange-traded futures and options contracts are valued at the quoted market prices. Forward purchase contracts, and forward sales contracts are valued at the quoted market prices, which are based on exchange quoted prices adjusted for freight and handling costs.

b) Foreign Exchange Risk

The company also uses derivative financial instruments, such as foreign currency forward contracts and futures contracts, to limit exposures to changes in foreign currency exchange rates with respect to its recorded foreign currency denominated assets and liabilities. As outlined in Note 3 k)i) certain areas of the company not related to the handling and marketing of grain follow the hedge accounting guidance in the CICA's AcG-13, whereby the gains, losses, revenues and expenses associated with the hedged item and the hedging instrument are recognized in income in the same period. In the remaining areas of the company, forward foreign exchange and futures contracts are marked to market and unrealized gains and losses are recognized in income in the period in which they occur.

The terms of the forward foreign exchange contracts listed below are for up to three years and include the company's proportionate share in joint ventures:

	2005	2004
Notional U.S. dollars sold	\$ 155,952	\$ 164,559
Canadian equivalent	\$ 199,217	\$ 227,140
Fair value	\$ 190,309	\$ 219,320
Unrealized gain	\$ 8,908	\$ 7,820
Average foreign exchange rate	\$ 1.2774	\$ 1.3803

Of the \$8.9 million unrealized gain at July 31, 2005, approximately \$1.1 million is recognized in these financial statements (2004 – \$1.3 million). The remainder will be recognized on a basis consistent with the recognition of the underlying hedged transaction.

c) Interest Rate Risk

The company is exposed to interest rate risk on long-term debt (see Note 14), however, this risk is considered low and there are no financial contracts in place to offset interest rate risk.

d) Cash Flow Risk

The company is exposed to future cash flow risk in its long-term debt, which is secured by certain assets and subject to meeting certain covenants. The company's subsidiaries and proportionate joint ventures are also exposed to future cash flow risk in their long-term debt, which is secured by certain assets and subject to meeting certain covenants. If secured assets are sold or certain covenants are not fulfilled, there is a requirement by the company, its subsidiaries and proportionate joint ventures to provide partial redemption of the associated long-term debt.

e) Credit Risk

The company is exposed to credit risk from customers in all the business segments. In the Grain Handling and Marketing segment, a significant amount is receivable from the CWB (see Note 5). The customer base in all other segments is diverse, which minimizes significant concentration of credit risk. Credit risk is limited due to the large number of customers in differing industries and geographic areas.

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

Fair Value

The carrying value of long-term debt that bears interest at variable rates approximates fair value (see Note 14d). The fair value of long-term debt that bears interest at fixed rates is based on its quoted market price or on discounted future cash flows using rates currently available for debt of similar terms and maturities if the quoted market price was not available (see Note 14b).

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

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

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

Foreign Exchange Gains and Losses

Foreign exchange losses of \$0.1 million are included in sales and other operating revenues for the year ended July 31, 2005 (2004 - \$1.7 million gain).

24. INTERESTS IN JOINT VENTURES

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

	2005	2004
Current assets	\$ 79,915	\$ 71,629
Long-term assets	\$ 45,372	\$ 53,279
Current liabilities	\$ 24,795	\$ 29,579
Long-term liabilities	\$ 20,446	\$ 26,107
	Year ended	Year ended
	July 31, 2005	July 31, 2004
Revenue	\$ 256,166	\$ 208,451
Expenses	\$ 235,343	\$ 198,573
Net earnings	\$ 20,823	\$ 9,878
Cash from (used in) operating activities	\$ 41,359	\$ (6,859)
Cash used in financing activities	\$ (12,292)	\$ (9,070)
Cash used in investing activities	\$ (2,830)	\$ (866)

25. SEGMENTED INFORMATION

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

a) Grain Handling and Marketing

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

b) Agri-products

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

c) Agri-food Processing

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

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

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

The following information is from continuing operations.

Sales	Year ended July 31, 2005		
	Total Sales	Inter-segment Sales	External Sales
Grain Handling and Marketing	\$ 766,107	\$ 12,884	\$ 753,223
Agri-products	514,238	-	514,238
Agri-food Processing	118,486	217	118,269
	\$1,398,831	\$ 13,101	\$ 1,385,730

Sales	Year ended July 31, 2004		
	Total Sales	Inter-segment Sales	External Sales
Grain Handling and Marketing	\$ 855,380	\$ 17,904	\$ 837,476
Less: Sales to discontinued operations	(6,116)	(6,116)	-
Grain Handling and Marketing – revised	849,264	11,788	837,476
Agri-products	459,942	-	459,942
Agri-food Processing	110,638	759	109,879
	\$ 1,419,844	\$ 12,547	\$ 1,407,297

Segment Earnings	Year ended July 31, 2005			
	EBITDA*	Amortization	Provision Recoveries	EBIT**
Grain Handling and Marketing	\$ 37,111	\$ (11,348)	\$ -	\$ 25,763
Agri-products	39,251	(10,000)	-	29,251
Agri-food Processing	16,448	(5,112)	-	11,336
Segment results	92,810	(26,460)	-	66,350
Corporate expenses	(22,280)	-	-	(22,280)
Per financial statements	\$ 70,530	\$ (26,460)	\$ -	\$ 44,070

Segment Earnings	Year ended July 31, 2004			
	EBITDA*	Amortization	Provision Recoveries	EBIT**
Grain Handling and Marketing	\$ 59,652	\$ (9,902)	\$ 1,000	\$ 50,750
Agri-products	32,010	(9,576)	-	22,434
Agri-food Processing	14,275	(5,104)	-	9,171
Segment results	105,937	(24,582)	1,000	82,355
Corporate expenses	(18,596)	-	5,216	(13,380)
Per financial statements	\$ 87,341	\$ (24,582)	\$ 6,216	\$ 68,975

* EBITDA – earnings before interest, taxes, depreciation and amortization, provision recoveries and discontinued operations.

** EBIT – earnings before interest, taxes and discontinued operations.

Capital Expenditures	Year ended July 31, 2005	Year ended July 31, 2004
Grain Handling and Marketing	\$ 6,710	\$ 10,302
Agri-products	3,640	4,710
Agri-food Processing	2,515	2,310
Per financial statements	\$ 12,865	\$ 17,322

Assets	2005	2004
Grain Handling and Marketing	\$ 313,943	\$ 312,739
Agri-products	171,652	172,958
Agri-food Processing	81,942	85,796
Corporate and other	154,323	111,941
Per financial statements	\$ 721,860	\$ 683,434

Foreign Sales	Year ended July 31, 2005	Year ended July 31, 2004
Grain Handling and Marketing	\$ 238,850	\$ 233,034
Agri-products	8,572	1,878
Agri-food Processing	107,125	95,651
	\$ 354,547	\$ 330,563

26. COMMITMENTS, CONTINGENCIES AND GUARANTEES

- a) The company, including its subsidiaries and its proportionate share of joint ventures, has operating leases relating primarily to railcars, buildings and equipment. Future minimum lease payments having initial or remaining lease terms in excess of one year at July 31, 2005 are as follows:

2006	\$5,403
2007	\$3,982
2008	\$3,115
2009	\$1,806
2010	\$1,199

- b) The company and its subsidiaries are involved in various claims and litigation arising in the ordinary course and conduct of their business. Although such matters cannot be predicted with certainty, management does not consider the company's exposure to such litigation to be material to these consolidated financial statements.
- c) In the normal course of business, the company can, from time to time, commit to secure agri-products inventory from a related party, for delivery at a future date. At July 31, 2005, the dollar value of this commitment was nil (2004 – \$17.3 million).
- d) Banking letters of credit and similar instruments (see Note 11).
- e) Loan loss provision (see Note 15b).
- f) Subject to final regulatory approval, the company is committed to the joint operation of Pacific Gateway Terminals Limited (PGTL) for a period of ten years. PGTL was established on July 11, 2005.
- g) The company has provided guarantees to a finance company related to equipment leases entered into by producers. As of July 31, 2005, the outstanding balance was \$1.4 million. Given historically low delinquent rates in conjunction with collateral values of assets, the company has accrued no obligation.
- h) Defined Contribution Pension Plans (see Note 18b).

27. COMPARATIVE AMOUNTS

Certain prior period amounts have been reclassified in order to conform to the financial statement presentation adopted in the current year.