

**Saskatchewan Wheat Pool**  
**Second Quarter Conference Call**  
**March 10, 2005, 12:00 p.m.**

Colleen Vancha:

Good afternoon ladies and gentlemen. Thank you for joining us for the Pool's 2<sup>nd</sup> quarter conference call. CEO Mayo Schmidt will take you through today's results and we will then open the call to question and answers. Mayo - I'll turn the call over to you.

Mayo Schmidt:

Thank you Ladies and Gentlemen.

As illustrated in our second quarter results, the operations are performing well despite the challenges of poor quality crops.

- Farmers deliveries into Pool and AgPro facilities during the quarter were up 22% and the Pool's primary market share for the six months rose from just under 21% last year to 23% at January 31, 2005.
- Shipments were also ahead of last year both for the quarter and for the six-month period.
- Agri-product sales for the quarter were up 14% as a result of higher fertilizer sales and we saw corresponding improvements in their EBITDA.
- And the Agri-food business is operating well.

Looking at the company as a whole,

- Sales for the second quarter of fiscal 2005 were \$322 million similar to last years level.
- Strong fertilizer sales and better Agri-food Processing sales offset a 7% decline in the value of grain sales
- While we saw shipment rise in the quarter, commodity values for non-Board grains were lower year-over-year causing the sales value decline.

- For the first six months, we had sales of \$551 million down approximately \$60 million and again, this reflects lower non-Board commodity prices overall.
- EBITDA for the quarter was \$14 million compared to \$26 million .... and for the six months was \$12 million compared to \$35 million last year.
- Once you exclude one-time items, the change was approximately \$17 million. This relates to lower grain margins because of poor crop quality and the late harvest. The Pool incurred purchase premiums and shipping costs in the first six months to secure quality grains and oilseeds to meet our sales commitments.
- The early sales commitments affected margins, however, we believe much of this is behind us now. We expect to see a recovery in this business as we move forward to the end of the year.
- In our Agri-products business, we generated \$5.4 million in EBITDA for the quarter up from \$4 million in the second quarter last year. This was driven by higher fertilizer sales and, to a lesser extent, seed sales. EBITDA for six months was \$2 million, double last year's level.
- A key indicator in this business in the second quarter is the level of pre-payments we receive from producers. Producers typically pre-pay for agri-products in advance of the spring season, and the Pool experienced a 23% increase in prepayments to the end of the quarter. These sales are not booked until the spring period when farmers take their product home.

In our processing businesses, we generated \$30 million in sales for the quarter up 15% from the previous year.

For the six months, sales were up 6%.

Strong demand for whole oat flour and finished products through Can-Oat produced sales that were slightly ahead of last year.

Prairie Malt sales were up 24% compared to the previous year's period when the company experienced abnormally low sales because of poor crop quality. This year, additional sales were also generated in the Japanese and North American markets.

Segment EBITDA for the quarter was \$5 million just slightly below last year's second quarter. On a year-to-date basis, EBITDA was approximately \$9 million ... down very slightly from a year earlier.

Interest expense for the Pool as a whole was down approximately \$0.5 million to \$8.7 million for the quarter. \$3 million was non-cash accretion.

For the six months, interest was down \$1.3 million to \$18 million. This reflects lower borrowing requirements in the first six months given the late harvest and crop quality. About \$6 million of the \$18 million was non-cash accretion.

The net loss for the second quarter was \$0.9 million (\$0.03 per share) compared to a net loss of \$4.8 million in the second quarter last year (\$0.05 per share).

On a year-to-date basis, the net loss was \$16.5 million (\$0.11 per share) compared to \$14.6 million (\$0.13 per share) in the first six months of 2004.

- Cash flow from continuing operations recovered to a breakeven level for the six months ended January 31, 2005 from an \$8.1 million negative position at the end of the first quarter.
- The company expects to generate significant cash flows by year-end, particularly in the last three months, its traditionally strongest quarter.

Capital expenditures totaled approximately \$7 million for the six-month period. We are expecting spending to be slightly higher than this level in the last half of the year.

As we look forward to the remainder of the year, the company will be focused on a number of financial and operational initiatives:

- With respect to the refinancing of our operating lines and term loan, negotiations are substantially complete and the company expects final documentation to be signed and funding to occur over the next few days.
- The recapitalization is also moving forward. As you know delegates approved the recapitalization on February 21 and we will be holding the Class B and noteholder votes on March 23.
- The Pool will apply to continue as a Canada Business Corporation on the 24<sup>th</sup> and shortly thereafter we expect the new common shares to begin trading.
- After 7 to 10 trading days, we expect the rights offering to be priced and the final prospectus issued.
- A record date will be established - shareholders will receive their rights and then the rights will trade for 21 days on the TSX.
- As we have indicated we will use the proceeds from the rights offering to eliminate a minimum \$100 million in term debt. We have not made a decision as to which piece will be addressed.
- This will dramatically improve our balance sheet and reduce cash and non-cash interest costs by up to \$15 million.

Operationally, the Pool's grain shipments for fiscal 2005 are expected to exceed 2004 levels. The level remains dependent on a number of factors including grain prices, exports, the CWB program and the potential for a good crop next year.

If grain prices remain low, farmers may choose to hold back a portion of their crop in an effort to blend it with a higher quality crop next year.

However, if prospects for the next year's harvest are good, farmers will also have to ensure they have adequate storage on-farm, which would force grain into the marketplace during the spring and early summer months.

The ability to secure export demand for lower quality grains and oilseeds for the remainder of the year will also be key to 2005 volumes.

For the Pool's Agri-products business, current moisture conditions are encouraging for the spring selling season.

Fertilizer sales are expected to be brisk in the spring if moisture conditions hold. There is also potential for a good crop protection products sales season given poor fall weed control.

The Pool's Agri-products business is highly seasonal and its results remain dependent upon farmers' seeding intentions and good growing conditions throughout the season.

Colleen, I'll turn the call over to you for the question and answer session:

**Colleen Vancha:** Thank you very much, Mayo I'd now like to move into the Q&A session. Wayne Cheeseman our CFO, Fran Malecha head of our Grain Group and Doug Weinbender who runs our Agri-products business are also here to participate in the discussion. Operator we can now begin taking calls from participants and if we could take calls from the market first and then move to the media.

**Operator:** Thank you. The floor is now open for questions. If you do have a question please press star 1 on your touchtone telephone. If at any point your question has been answered you may remove yourself from the queue by using the pound key. We do ask that if you are on a speaker phone, please pick up your handset to provide optimum sound quality. Once again for any questions at this time please press star 1 on your touchtone telephone. Your first question is from Adrian Ewen of the Western Producer.

**Adrian Ewen:** Hello, I just wanted you to comment on the Federal Government's decision to enter into formal negotiations with the Rail Car Coalition. What are your thoughts on this process and the prospect of the Rail Car Coalition taking over the cars?

**Mayo Schmidt:** Adrian thanks for the question. I think that the principals that were established with all parties that were considering their interest in the cars was that they wanted a clear and open process, and they wanted to understand the rules as to how the cars would be administered and how they would be managed. I think the marketplace recognizes when cars are either owned or leased and put into a system that with that process it does not necessarily mean the control of or the car allocation process follows. So it's important to the participants and certainly companies, farmers and grain companies, as well as export facilities and customers that this doesn't disrupt the orderly process or flow of cars to high throughput facilities. So that remains our concern to just make sure we understand how this process is organized and executed.

**Adrian Ewen:** And one follow-up, do you see any problems with the grain companies working with this new group if indeed they do take over the cars. Do you

foresee any working relationship issues or do you think things will continue in a business-like manner?

**Mayo Schmidt:** I'm sure that everything will continue in a business-like manner. I guess what's not clear to us is how they intend to operate and go forward. That hasn't been clear and we look forward to the opportunity that they can make it clear so that we can respond to how well that works for the system in its entirety. I don't think as a company we're focused solely on how it works for just our system. I think it's important to Western Canada, as well as customers, that we ship to around the world as to how efficient our system is. It's not a matter of us competing with or having competing interests, it's a matter of customers at the origin and customers at the destination and our ability to serve them.

**Adrian Ewen:** Thank you.

**Operator:** Thank you your next question is from Roberta Rampton of Reuters.

**Roberta Rampton:** Hi, I note that in your outlook you mentioned you talked about how 2005 volumes are going to depend to a great extent on what kind of export demand for lower quality grains sort of emerges. I'm just wondering if you could elaborate on perhaps a little more just in terms of what you've seen for export demand so far for the lower quality grains and what could happen to increase that for the rest of the year?

**Fran Malecha:** Sure Roberta this is Fran Malecha. We have seen some solid demand for feed wheat and the Wheat Board has been selling through the export market. I guess the question would be will those sales continue to be there as we go into the spring and summer months. There's still a fair amount of wheat left on the farm and certainly in Saskatchewan. Now a large portion of that is feed quality. So as you know, once competing countries' crops start coming off, be it crops in other parts of the world, new crop wheat, it remains to be seen if the Wheat Board will be able to continue to execute and make sales into that market.

**Roberta Rampton:** Okay, and Mr. Schmidt you talked about how in a general sense you're expecting sort of brisk sales in spring, any other thoughts about the kind of the crop year ahead - growing year ahead?

**Mayo Schmidt:** Well I think that as we look forward you know prospects are good and we're certainly eager for spring. Well positioned with inventories and sales in terms of prepaids - they have been very strong. We're very pleased with that and the process that we've been going through will conclude itself in the spring, which gives us the opportunity to get solely focused on operating the business. We'll have a new capital structure in place that's going to make us a very strong and robust company. So as I look at it, there's good moisture. We're going to be looking at targeting producers and how the dollars will impact, you know, the growth of quality crops. So we're very positive about the coming year at this time.

**Roberta Rampton:** Thanks.

**Adrian Ewen:** Hi, there was recently a report from Statistics Canada on the fact that Saskatchewan is not, to everyone's great surprise, in very difficult financial circumstances on the farm. In terms of your operations and your hopes that farmers will be buying farm inputs and so on, can you talk a bit about what need you see for any Federal Government assistance to farmers this spring? Do you think that there is

adequate support in place, and how important is that in terms of meeting your goals on the farm inputs purchase side.

**Mayo Schmidt:** Well first of all Adrian I, I think it is important to note that our prepays have been very strong and we expect robust sales. As far as your other point related to Stats Canada and farm income, there's no question that the EU has in some recent sales substantially increased their subsidies. It's a question whether the US will meet that. So it really comes back to producer interest as to how they're able to affect the government in terms of the support that they receive. Canada as a whole in terms of subsidies provided to producers is substantially behind the US and EU, so that isn't going to change overnight and I think there's certainly an expectation by our customer base that there is, in fact, programs that will continue to support them.

Do I think that we're going to be materially affected in the spring by the income issues? No. I think moisture will dictate that producers having been through three to four years of poor crops are going to want to produce one of their best crops this next season and they'll buy the crop inputs to accomplish that.

**Adrian Ewan:** Okay thank you.

**Operator:** Thank you your next question is from Joshua Trump of Satellite Asset Management.

**Joshua Trump:** Hi, I was just wondering if you could just walk me through your expected timing for the rights offering and the bank refinancing.

**Colleen Vancha:** Hi, it's Colleen Vancha. In terms of the bank refinancing, we are completing that piece over the next few days and there should be some additional information available for the market very shortly. In terms of the rights offering, the process will be that, assuming a positive vote on the 23<sup>rd</sup>, the company will apply to the Federal Government to continue as a Canadian Business Corporation on the 24<sup>th</sup>. The common shares will begin trading sometime very shortly after that. And we will watch those trade for say 7 to 10 days. It will depend on how the market is treating those common shares and then we expect the rights to be priced. Of course, once that's done we will prepare the prospectus and get that out to common shareholders and then a record date will be set sometime mid, maybe third week in April and the rights will start trading for 21 days. So assuming that timeline, and you know I'm somewhat tentative at this point, the rights should conclude and the money be available to Saskatchewan Wheat Pool sometime a little closer to the end of May.

**Joshua Trump:** Okay, so the bank refinancing is not condition upon the rights offering being completed I guess.

**Colleen Vancha:** That's correct.

**Joshua Trump:** That's the next few days.

**Colleen Vancha:** That's correct.

**Joshua Trump:** Okay thank you.

**Colleen Vancha:** You're welcome.

**Operator:** Thank you, your next question is from Hugh Cooper of RBC Capital Market.

**Hugh Cooper:** Mayo how much long-term debt will you have with your new capital structure and what will be your typical capital expenditures going forward and thirdly following on that, what will, presuming you have a good year here, what will you be doing with the excess cash flow?

**Mayo Schmidt:** Well first of all we have still a remaining \$150 senior subordinated note. Our capital expenditures generally runs between \$20 and \$30 million and as we look forward in terms of cash flows for the company we're going to continue to work through the transformation and the recapitalization and I think that there's a recognition that post recapitalization the financial profile will be much improved. But I do believe it's a little too premature at this stage to establish any policy or viewpoint with respect to excess cash. We're going to continue to evaluate that certainly in due course post recapitalization of the company. So I expect to be able to have that discussion with you in short order. Our primary focus over the last few years was to get the debt down and we've substantially done that and we're going to be at about approximately a 30% debt level - of course that depends on the peaks and valleys of the year but the cash will be focused on operations in the near term.

**Hugh Cooper:** So, you're comfortable with that level 30%.

**Mayo Schmidt:** Yes, we're comfortable at 30% considering the environment; with the challenges that Mother Nature brings us. I think in this industry anything over 40% puts a company at risk to operate in the environment. We're very pleased to be at 30% level.

**Hugh Cooper:** Okay.

**Operator:** Thank you, your next question is coming from Roberta Rampton of Reuters.

**Roberta Rampton:** Mr. Schmidt we've talked about this before. Consolidation within the Canadian Grain Handling sector and about how you hope your company hopes to be a leader in that. I guess I'm just wondering if there's anything new on that front in terms of what you see happening, when it might happen, what sort of combinations of things could be happening.

**Mayo Schmidt:** Well I think there's a couple things to consider, one is that the market remains 25% over capacity. That the efficiencies provided by 100-car freight trains and the associated freight savings from the railroads will allow us as an industry to predict that it's going to continue to put pressure on businesses or single facilities that continue to load less than 50 car units to the marketplace. I think consolidation is going to come as a process, rather than an event and I think that as individual companies continue to have to pour capital into antiquated facilities, which they're challenged to compete with anyway, they're gonna reconsider continuing to operate those facilities.

So I think it is going to be a process over some time, things like the last three or four years of drought have put significant pressure on those individual businesses. We're aware that recently there has been facilities that have come up for sale both on the grain and the agri-product side and expect that trend to continue and maybe accelerate at some point in the near future.

**Roberta Rampton:** And would your company be interested in any sort of facilities, on either side of the business if it is outside of your main area?

**Mayo Schmidt:** You know everyday through our business development and planning group we do look at assets and opportunities. We're certainly always open to strengthening our footprint and continuing to promote a strong company so that we have the appropriate amount of influence in the marketplace. As we look out at the future we're certainly going to be open to those opportunities and expect that those opportunities will become more frequent in the near future.

**Roberta Rampton:** Thanks.

**Operator:** Thank you once again if you do have a question please press star then 1 on your touchtone telephone at this time. Your next question is a follow-up coming from Hugh Cooper of RBC Capital Markets.

**Hugh Cooper:** Mayo can you touch a little bit on two subsidiaries or one joint venture the Can-Oat Milling and also the Prairie Malt. How they're doing and how things look there.

**Mayo Schmidt:** Sure be happy to. Can-Oat really is the largest industrial oat miller in the world. Two large plants, one in Portage La Prairie and one in Martinsville here in Saskatchewan, Portage La Prairie of course being in Manitoba. Well performing company, highly respected in the industry, supplying marquee customers particularly in the US. Oat origination is probably 98% in Canada. Very, very solid business with good earning streams. This year has been affected marginally by the quality of the crop. I mean sales have been reasonably good but unfortunately due to the quality of the crop we see a little more in terms of when we mill the product a little more of the key component that comes from the milling process, which has affected some of the earning streams.

The other of course in that business is the US foreign exchange that is always important to us. And as I look at Prairie Malt, you know a year ago the results were pretty challenging because of the quality of the crop. Canada was actually importing malt barley but we had a reasonable crop last year. Saskatchewan Wheat Pool supplies a good deal of the volume to Prairie Malt. Our competition in that industry globally, as well as North America is very strong. Prairie Malt is recovering and focuses on serving niche markets where we do business.

**Hugh Cooper:** And you got a 42% interest in Prairie Malt, do you see that ... anything changing that or is that just going to be status quo?

**Mayo Schmidt:** I think it is status quo. We have a very good relationship with our partner and the business is well managed and we're pleased with the results considering the marketplace they do business in.

**Hugh Cooper:** Okay and Can-Oat Milling in total I think you've paid about \$79 million for the stake over time - can you be happy with that purchase.

**Mayo Schmidt:** Well I must tell you that that purchase predates the arrival of the entire management group here and through the fresh start accounting when we did a comprehensive revaluation of all the assets of the company, the goodwill basically all came off of the balance sheet. So we're certainly happy with the ownership we have in the company. We're very pleased with the position it has in the industry and we think we have a platform that we can build on in that business. It's a tough business to break into because it's very complicated in terms of the milling process and as well with the customers it takes years of relationships to build up a customer base of which we have in excess of 10 years of experience.

I might note that years ago that business and other businesses like it experienced losses associated with getting started in early construction and developing their milling process so I think there's a reasonably high barrier to entry. I think we've got a solid customer base and we've got very good management in that business and we continue to see and look towards growth opportunities in that platform.

**Hugh Cooper:** Are you still the largest industrial Oat producer in the world?

**Mayo Schmidt:** Yes we are.

**Hugh Cooper:** Okay and second to General Mills in oat processing.

**Mayo Schmidt:** No there would be other processors as you look at Con-Agra and Grain Millers. There are some others, General Mills primarily internalizes their own processing so they're not out in the world market necessarily with processing.

**Hugh Cooper:** Okay thank you.

**Mayo Schmidt:** You're welcome.

**Operator:** Thank you, you're next question is a follow up from Adrian Ewen of the Western Producer.

**Adrian Ewen:** Hi, this will be my last question, I want to touch on a subject tendering. The Canadian Wheat Board's tendering this year, I'm told is being done at positive values and I'm wondering how you, from the grain companies perspective, how the tender systems working this year, how the board says that it's gonna stick to about a 15% to 20% tender I'm told. Do you think they should be doing more tendering or how do you see the economics of tendering this year from your perspective, whether Fran or Mayo would like to comment on that, either one.

**Fran Malecha:** Sure Adrian this is Fran. The Wheat Board is pretty consistent tendering in that 15% to 20% range consistent with last year. Some tenders have gone at premiums, some at discounts it depends on the quality of the grain and timing of when they tender. I would say that you know our thoughts are unchanged on tendering from the past three or four years. We still believe that to fully take advantage of our competitive advantage and logistics that more tendering would be better for the Pool. But at the same time it is what it is and so we try to use it to the best of our ability to maximize our operations.

**Adrian Ewen:** If tendering was being done at higher level or even the 100% that the Pool has talked about would that, maybe I'm understanding it wrong but if that's taking place and a lot of it is at a positive level wouldn't that be taking money out of farmers pocket in a sense, rather than savings that we've seen talked about from tendering. Would you in fact be seeing numbers that would indicate a cost to farmers at the end of the day?

**Mayo Schmidt:** Adrian this is Mayo, just a thought as another way to look at that. First of all certainly if there's a positive premium being paid to grain companies to tender and to move grain then that would be obviously associated with how grain is positioned relative to the Canadian Wheat Board sales and they would of course make those decisions. I think more importantly is that as we review and, as an industry when I say we as the industry looks at tendering and the substantial amount of returns associated with that from savings from efficiencies - when we tender the 100 card units and we combine different commodities to maximize the freight efficiencies in the end. It

becomes the railroads that are sponsoring all the income stream through efficiencies that they derived and some of those efficiencies could be well north of \$50, \$80 million dollars. We share those as an industry back through our system through trucking premiums and other types of premiums and blends that are provided to producers so there's a substantial income stream associated with tendering.

And our view continues to be, we'd like to continue to see the marketplace look at that and reconsider the levels of tendering because we think that there is efficiency savings there to be shared by the entire marketplace.

**Adrian Ewen:** Okay so regardless of whether you're seeing positive or negative values there's still savings you would say throughout the system?

**Mayo Schmidt:** Oh I think the savings associated with the small premiums paid to ship, pale in comparison to the savings from the efficiencies gained that are shared by the industry as a whole. That is the producers and grain companies and others, so I think that's really where the focus ought to be as compared to a few premiums you get paid to move grain that's not in the position.

**Adrian Ewen:** Thank you.

**Mayo Schmidt:** You're welcome.

**Operator:** Thank you I'm currently showing no further questions and I would like to hand the floor back over to Colleen Vancha for any closing comments.

**Colleen Vancha:** Thank you very much everyone for joining us today. The call is recorded and you can reach the playback by dialing 1-877-519-4471. You'll be required to key in 5802119. The quarterly report is available on our website should you like to review that and I want to thank you very much for joining us. We'll be talking to you again.

**Operator:** Thank you, this does conclude today's teleconference you may now disconnect your lines and have a wonderful day.