

Saskatchewan Wheat Pool Inc.
Third Quarter Conference Call
June 14, 2005, 12:00 p.m. (Manitoba Time)

Colleen Vancha:

Good afternoon ladies and gentlemen. Thank you for joining us for the Pool's third quarter conference call. CEO Mayo Schmidt will take you through today's results and we will then open the call to questions. Mayo - I'll turn the call over to you.

Mayo Schmidt:

Thank you.

During the Pool's third quarter, the company executed on a number of very important initiatives. It was a pivotal time for the Pool. Before I review our results for the period ended April 30, 2005, I would like to summarize some of the key transformational objectives that were achieved during the quarter.

As many of you are aware, the Pool launched a recapitalization initiative in February - the result of several months of planning, analysis and development. The plan included:

- The continuance of the Pool as a corporation governed by the Canada Business Corporations Act -- moving from a co-operative business model to a public company with a single class of voting common shares.
- The exchange of farmer-controlled Class A shares and publicly-traded Class B shares into a single class of common voting shares;
- The exchange of \$172 million of Convertible Subordinated Notes into common shares, eliminating the artificial ceiling on the stock; and
- The launch of a \$150 million rights offerings, the proceeds of which were targeted towards the elimination of debt.

The rights offering was highly successful and substantially oversubscribed.

We raised \$142.3 million in net proceeds and have used \$100 million to repay the term debt that was refinanced in March.

The remaining \$42 million is being used to support working capital and to reduce our reliance on our operating lines. We have reshaped our balance sheet, lowered our financing costs and restored the Pool's strength.

Consider the Pool's debt-to-equity ratio, which at April 30, 2005 was 61:39. If we assume the recapitalization was complete at quarter-end, the Pool's debt-to-equity ratio would have been 38:62.

Last Friday, Dominion Bond Rating Services acknowledged the initiative, upgrading the Pool's credit from a B to a B high. We believe that there is ample opportunity to improve this rating, as we continue to focus on lowering our cost of capital and implementing initiatives to drive earnings and cash flow.

We also announced grain volume insurance for the 2006 fiscal year. It provides the Pool with partial payments if production falls by 20% and a full payout if production drops by 45%. The plan allows for up to \$30 million in coverage.

Operationally, we made a significant move to secure our position in the most strategic port in Canada - Vancouver. We announced a joint venture with James Richardson International Limited, which operates an export terminal that is adjacent to our facility. The joint venture will allow the Pool to improve operating efficiencies. We will improve railcar utilization and increase productivity and throughput potential by specializing each facility by commodity.

Demand from Asian Pacific countries for Canadian grain-based products is on the rise. We believe this joint venture will solidify our competitive position in Vancouver and allow us to capitalize on the efficiencies of our primary system.

Let me now briefly review our quarterly and year-to-date results for the period ending April 30, 2005.

The third quarter was a good quarter relative to last year.

Sales for the three months were \$288 million, up 13% from the \$255 million generated in the same quarter of fiscal 2004.

Sales increased in all three business segments, reflecting:

- stronger grain shipments quarter over quarter;
- a 16% increase in Agri-product sales ; and
- a 7% increase in Agri-food Processing sales.

EBITDA for the quarter was \$11.5 million exceeding last year's result by 11.7% after excluding a one-time non-recurring item that was recorded in last year's quarterly results.

Cash flow from continuing operations for the three months was \$4.8 million, up from the \$1.8 million generated in the third quarter last year.

The Pool's loss from continuing operations was \$2.1 million compared to a loss last year for the quarter of \$4.8 million. The net loss for the quarter was \$900,000, which compares to a loss during last year's quarter of \$9.1 million.

Nine Months

On a year-to-date basis, we continue to make progress despite the challenges of an extremely poor quality crop.

The Pool's Grain Handling and Marketing segment shipped 1.6 million tonnes for the quarter bringing year-to-date shipments to 4.9 million tonnes.

This represents a 10.1% increase over last year and exceeds industry shipments for the nine months, which were up only 4% year-over-year.

Our port terminal volumes through Pool owned facilities were up 16.4% from the third quarter last year and for the nine months were 6% ahead. To date, the Pool has handled three million tonnes of grains and oilseeds at export position.

Pipeline margins per tonne for the quarter were \$20.68 – a significant improvement from the \$16.76 per tonne generated in our second quarter – but still behind the \$22.15 earned in the third quarter of last year. The late harvest and low crop quality are the primary factors.

Average pipeline margins per tonne over the first nine months were \$17.45, in line with our expectations but down from last year at this time, when margins averaged \$22.24 per tonne. As we have previously stated, we believe margins will be 10% to 15% behind the \$20 to \$22 average margin per tonne that is typical in a normal year.

EBITDA for the Grain business was \$10.4 million for the quarter and \$20 million for the nine months. This compares to \$43.4 million earned last year.

Our Agri-products segment continued its quarter-over-quarter sales growth with sales of \$66.5 million, which is up 16.4% over the third quarter of 2004.

Strong demand for fertilizer and seed drove retail sales improvements. For the nine months we have generated \$194 million in sales, which is up from \$182 million in the first nine months of 2004.

Agri-products EBITDA for the quarter was \$2.9 million, more than double last year's quarter and was \$4.9 million for the 9 months which compares to \$2.4 million generated in the first nine months of 2004.

In Agri-food Processing, sales for the quarter were up 6.6% to \$28.7 million and reached \$89.7 million versus \$84.2 million in the previous year. Strong demand for whole oat flour through Can-Oat and higher sales through Prairie Malt drove the improvement.

Agri-food Processing EBITDA for the quarter was \$3.9 million compared to \$2.6 million earned in the third quarter of 2004. On a year-to-date basis, EBITDA was \$12.8 million compared to \$11.7 million last year.

Overall, on a year-to-date basis, the net loss was \$17.4 million compared to \$23.7 million in the first nine months of 2004.

As we look to the remainder of the year, seeding to June 9th was approximately 93% completed. But excessive rains over the last two weeks have hampered the final plantings, particularly in Manitoba. Warm weather returned to the Prairies over the weekend and farmers will be anxious to get back onto the fields. We now expect a switch from canola to cereal grains like barley and oats because of the shorter growing cycle and some intended acreage may not be planted.

For the crops that have been seeded, they are emerging well and we expect to see brisk crop protection product sales as farmers move to control weed growth.

For the grain business, the Canadian Wheat Board has revised its export commitment down from 16.3 million tonnes for the year to a range of 15.2 to 15.4 million tonnes. Total exports, including non-board shipments are now expected to be behind last year by up to 1.5 million tonnes.

This becomes a timing issue. Farmers are expected to carry-over 7 million tonnes of grains and oilseeds into fiscal 2006, which is 2 million tonnes higher than average. We expect they will hold commodities on farm in hopes of extracting higher prices in the new crop year and blending the remainder of this year's poorer quality crops with higher quality commodities to be harvested this fall. Assuming normal production levels, there is the potential for higher volumes in 2006 as a result of the carry-over.

That concludes my update and I would be pleased to take any questions you may have. Colleen I will turn the call over to you.

Colleen Vancha: Thank you very much, Mayo.

Ladies and Gentlemen – also available to take your questions are Wayne Cheeseman our CFO, Fran Malecha head of our Grain Group and Doug Weinbender who runs our Agri-products business.

Operator we may begin.

Operator: Thank you. The floor is now open for questions. If you have a question please press star, one, on your touch-tone phone at this time. If at any point your question is answered, you may remove yourself from queue by pressing the pound key. Questions will be taken in the order they are received. We do advise that when you pose your questions, that you'd please pick-up your handsets to provide optimum sound quality. Please hold while we poll for questions.

Our first question comes from Jim Smalley from CKRM. Please pose your question.

Jim Smalley: And good morning. I guess Mayo, the obvious question I want to ask is what are the reasons, I know the Pool has improved, but there's still a loss at the Pool. What are the reasons behind that?

Mayo Schmidt: Well Jim, I think the first thing you need to consider is, and we've really articulated this both to the farming community as well as the investors, that the third quarter is typically the slowest quarter within our year. The fourth is usually the biggest quarter as we go forward. So the other point is that the crop that we're dealing with this year is substantially below in terms of quality; 50% of the wheat crop was feed this particular year. Most of the earnings and the cash flow will come in the fourth and we'll be announcing that, of course, in the fall.

Jim Smalley: Thank you.

Operator: Thank you. Our next question comes from Todd Lee from Botti Brown. Please pose your question.

Todd Lee: Yes, my question is in regards to the balance sheet, the pro forma balance sheet at this point. With the rights offering and the pay-down, what is the debt outstanding at this point? And what is the interest rate with that debt?

Wayne Cheeseman: It's Wayne Cheeseman speaking. Just in terms of the interest rate, the biggest piece of debt we will have outstanding is our Senior Subordinated Note. It's currently at 8% interest and that moves to 12% on August 1 of this year. And our basic total debt outstanding will be around \$150 million in long-term debt plus some other liabilities related to some environmental. So basically, we have our long-term debt Senior Subordinated Note and then on the current basis, our operating line. And that will be it for us.

Todd Lee: And what is your plan in regards to that debt? Is it to refinance or is it to pay down with the cash flow from next year's crop? Are there any call provisions?

Wayne Cheeseman: We can call it and redeem it. Currently, the penalty on it is 4%. That goes down to 2% on January 1, 2006, and down to 1% on January 1, 2007.

Right now, we're looking at opportunities to see what opportunities there are to refinance. That's certainly a current project that's in progress for us.

Todd Lee: OK. Thank you. That's all of my questions.

Wayne Cheeseman: Thank you.

Operator: Thank you. Our next question comes from Jared Laneus from National Bank Financial. Please pose your question.

Jared Laneus: Just a very quick question; what do you see as prospects for consolidation in the industry to remove excess grain handling capacity? And I also noted in the DBRS conference call that you had several earnings enhancement initiatives that were underway, one of them being efficiencies in transportation costs and another being an increased role for your processing business. Could you comment on these three things please?

Mayo Schmidt: Sure, Jared. First of all, from a consolidation point of view I think there's two points to be made. There continues to be closures of antiquated older wooden facilities across the Prairies, even today. I think that those facilities are marginalized by the fact that – and my second point - that the 100 car loaders continue to be very competitive. And when you add the savings associated with loading 50s and 100s, as well as the cleaning and blending opportunities, and at times drying opportunities, which the more antiquated facilities can't provide, it does create a point at which those facilities, the older facilities require capital. People are making decisions to close those.

I think that pressure is going to continue in the industry. And the fact, you know, if we have a large crop this year there's only a certain allocation of rail equipment and the rail equipment typically is not allocated to the smaller, inefficient loaders that tends to be serviced - the 100 car loaders for better efficiency and a turn-around time. I think some of the other examples in terms of transportation. The James Richardson joint venture in Vancouver is an example of that and from two points. One is the utilization of plant capacity; a second is that we've substantially improved the performance of that plant through a new unload system where we've gone from 120 cars unloaded a day to over 200 cars a day, which has been a great benefit to us getting our cars unloaded.

Opportunities for processing - Can-Oat is looking at their own strategies. We will be advising the market of that when we're ready. Certainly, it has been a great business for us with a very good reputation in the industry in terms of supply and it continues to run very, very well for us.

Operator: Thank you. Your next question is from Roberta Rampton from Reuters. Please pose your question.

Roberta Rampton: Hi. I have two related questions. I'm wondering first of all, the key report projections that you quote in your release, where are they coming from? Are they from correspondence directly with the Wheat Board or?

Mayo Schmidt: On the Wheat Board's export numbers it was correspondence directly with the Wheat Board.

Roberta Rampton: OK. Secondly, on your carry-out projections, what are your projections for total carry-out, farm plus commercial?

Fran Malecha: On-farm carry-out would be, if you look at Canada, would be '04/05 – 6.9 tonnes of grains and oilseeds.

Roberta Rampton: OK.

Roberta Rampton: All right. I was just trying to square that with some projections from one of your competitors. Agricore last week, they projected total carry-out of 14 million tonnes, but it sounds like your projections are slightly larger.

Fran Malecha: This is straight off of Agriculture Canada's numbers from May 31.

Roberta Rampton: All from the RS&D?

Mayo Schmidt: Yes.

Roberta Rampton: OK. If I might squeeze one more in. I'm wondering Mr. Schmidt, what you make of your competitor taking over the facilities in the country? I guess what competition does this pose for the Pool, and I guess what it means in the bigger picture of consolidation in the industry?

Mayo Schmidt: Frankly, from our perspective there was a competitor on those sites a year ago, they'll be a competitor on those sites a year in the future, so actually we don't see any significant changes in terms of the competitive landscape. I think that there's probably, certainly for both James Richardson and our organization, an enhancement relating to the movement to export position, where we'll jointly handle that grain, move the volumes to that facility and obviously the associated efficiencies that'll be gained through that process will benefit both companies. So, I think that's fundamentally the only change that I see. It certainly hasn't caused any less competition in the marketplace.

Roberta Rampton: Sorry, just to make sure I understand it correctly. So, by having that extra volume for JRI, that enhances the position of both companies through your new export venture on the West Coast?

Mayo Schmidt: That's correct. Due to the joint venture. That's correct.

Roberta Rampton: OK. Thanks.

Mayo Schmidt: You're welcome.

Operator: Thank you. Our next question comes from Adrian Ewins from The Western Producer. Please pose your question.

Adrian Ewins: Hi. I have a couple of questions. You talked about the fact that you're expecting this large carry-over and also that the fourth quarter is large - usually your biggest quarter. Will that be affected by the fact if farmers are looking to carry grain into next year in anticipation of the higher prices will that affect your returns in the fourth quarter relative to the normal kind of experience you have?

Mayo Schmidt: Well, I think that it'll have to be determined in terms of the strategies that the Wheat Board will use. And I think it not only is affected by their decisions around sales, but it's affected by the availability of transportation. And I think it's typical in any marketplace prior to harvest, which will be in our fourth quarter, the system tends to want to clean itself out and move production out for new production to come in. So, I think its only impact is related to timing in terms of the income from one month to the next. I think the key to the fourth quarter for us is more Agri-products business, as they are a key contributor to that fourth quarter, as opposed to simply being when the Wheat Board chooses to move their volume. The key is they'll move it, when they move it we'll be there to handle it, but Agri-products is an important contributor in the fourth.

Adrian Ewins: And based on current sort of agronomic conditions out there and moisture levels, is that good for your Agri-products outlook?

Mayo Schmidt: Yes, I think it's been very good. In fact, fertilizer application went very well. Crop protection associated now, I know in Manitoba today, it's cloudy and raining, but weeds, as well as grain and oilseeds, are growing everywhere and so there's lots of chemicals being sold to take care of weeds and also different types of fungus and disease. So we think the industry, as well as us, are going to experience a good season this spring.

Adrian Ewins: And one final - in terms of changes in the industry since your last report, we saw a group of Saskatchewan farmer-owned grain terminals purchase the terminal at Vancouver. I was wondering what, if any, competitive implications you see there both at the terminal in terms of having a new player there that may be aggressively seeking business? And also in a country whether there's going to be, any move by Saskatchewan farmers to patronize this new company or the players who are involved in that terminal?

Fran Malecha: This is Fran Malecha. I guess on the terminal itself, it's too early to tell what the impact is going to be. I don't think all the details are worked out yet on the deal, but certainly in a marketplace that is operating probably at 70 or so entire capacity, you know it can change the dynamics out there. As far as in Saskatchewan, you know the five producer terminals that are part of the terminal one, and I suspect that they'll try to move their grain to the terminal in Vancouver.

Adrian Ewins: And if they do, do you see that as providing any sort of more competition than you now face from those five companies. I mean will there be any momentum that they may seek to gain that out of this new venture?

Fran Malecha: I mean I think there's potential for them to earn additional margins if they choose to; take a portion of those margins and subsidize that to the grower. I think there's a chance to become more competitive in those areas.

Adrian Ewins: Thanks.

Operator: Thank you. Once again, if you do have a question please press star, one, on your touch-tone phone at this time.

Our next question comes from Gary Norris from Canadian Press. Please pose your question.

Gary Norris: Yes. Hello. On the DBRS call yesterday there were three specific concerns that the analyst mentioned, and I'm wondering if I could get you to address each of them briefly in turn, those being: reliance on grain handling; concentration in Saskatchewan; and general overcapacity in an industry that is subject to a restrictive regulatory environment.

Mayo Schmidt: Sure, I'd be happy to actually. I think that it's important to remember that the DBRS comments are their opinion, and as a rating agency, it would be our view that they would take a conservative approach. I think that first of all, the crop conditions are very positive in the countryside. I think our organization is recognized, the recapitalization has set our organization up for success to take advantage of opportunities going forward. We continue to focus on improving our core business such as the James Richardson joint venture, working in concert out on the West Coast. No question that we're concentrated in Saskatchewan, but we're very comfortable with that position, because over half of the production to deliver the licensed elevators is grown in Saskatchewan. So, we're well positioned. I think the three years of drought is unprecedented and we wouldn't base our business decisions in investments going forward based on three abnormal years. We have also purchased grain volume insurance, which significantly mitigates - it mitigates, excuse me, any impacts of drought as does our improved balance sheet. We are much stronger financially. And I think that as DBRS points out, a drought may only be a one in ten year event. I think they also point out that overcapacity in industry regulations or industry-wide issues, it's simply the playing field that everyone must do business. We feel we've put ourselves in a position to maximize the future opportunities that these issues can create, because we think that this organization can prosper whether it's a heavily regulated environment or not because the complexity of the marketplace doesn't create impediments for us to do business. So, we simply find creative and new ways to do business.

So, I had stated earlier in the conversation that capacity continues to come out of the system, although I think all the industry participants would have a view that it should come out faster, but competitive forces be what they may it's going to come out when the companies choose to close that capacity. So, all the industry has shared the pain of the last three years, whether it's farmers or grain companies or Agri-product companies have shared the pain of the drought. And I think we're all looking forward to some good years, and it's evidenced by the fact that we've got substantial moisture across the Prairies. Even a couple of dryers in Southern Alberta got recent moisture and they're looking pretty good. So, we think this year's stacked up pretty well and we very much like our position in the market in Saskatchewan.

Gary Norris: OK. Thanks very much. I don't think anybody pointed out in that DBRS call about what happened when The Pool ventured abroad to Poland and places like that.

Mayo Schmidt: Well, I think you know, that's just part of actual history in terms of a particular period of time within its 81 year history when some decisions were made that as a company didn't work out. Management is focused, looking forward. It's a different group of people that is with the organization now and with that hindsight, we're simply looking forward. Really don't take any time at all to look in the rear-view mirror. We're going forward quickly.

Gary Norris: Thanks for your time.

Operator: Thank you. As a final reminder, if there's any further questions please press star, one, on your touch-tone phone at this time.

We appear to have no further questions. I'd like to turn the floor back over to Ms. Vancha for any further comments.

Colleen Vancha: I just want to thank everyone for joining us today. We are in the midst of our heavy fourth quarter and we look forward to getting back to you later in the fall to report what we hope to see, a successful fourth quarter. So, thank you very much. And the conference call is taped and that number is available to you on the conference call notification that we sent out earlier to you. Thank you all.

Operator: Thank you. This does conclude today's teleconference. Please disconnect your lines at this time and have a wonderful day.

Colleen Vancha: Thank you very much everyone for joining us today.