

## Auditors' Report to the Shareholders of Viterra Inc.

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We have audited the consolidated balance sheets of Viterra Inc. as at October 31, 2008 and October 31, 2007 and the consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for the year ended October 31, 2008 and the fifteen months ended October 31, 2007. 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 October 31, 2008 and October 31, 2007 and the results of its operations and its cash flows for the year and the fifteen month period then ended in accordance with Canadian generally accepted accounting principles.



Deloitte & Touche LLP  
Chartered Accountants

Regina, Saskatchewan  
January 20, 2009

## Management's Responsibility for Financial Statements

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The management of Viterra 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 & 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  
President and Chief Executive Officer

January 20, 2009



Rex McLennan  
Chief Financial Officer

## Consolidated Balance Sheets

(in thousands)

As at	October 31, 2008	October 31, 2007 (restated - Note 2p)ii)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 183,536	\$ 24,600
Cash in trust	—	16,710
Short-term investments	486,129	44,051
Accounts receivable	773,830	458,914
Inventories (Note 6)	837,943	785,695
Prepaid expenses and deposits	91,183	51,685
Future income taxes (Note 20)	59,202	70,116
	<b>2,431,823</b>	<b>1,451,771</b>
<b>Investments (Note 7)</b>	<b>7,645</b>	<b>19,198</b>
<b>Property, Plant and Equipment (Note 8)</b>	<b>1,154,859</b>	<b>1,192,620</b>
<b>Other Long-Term Assets (Note 9)</b>	<b>69,238</b>	<b>61,233</b>
<b>Intangible Assets (Note 10)</b>	<b>22,133</b>	<b>20,275</b>
<b>Goodwill (Note 5)</b>	<b>300,121</b>	<b>296,743</b>
<b>Future Income Taxes (Note 20)</b>	<b>2,673</b>	<b>255</b>
	<b>\$ 3,988,492</b>	<b>\$ 3,042,095</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank indebtedness	\$ 655	\$ 4,501
Short-term borrowings (Note 11)	17,769	352,527
Accounts payable and accrued liabilities	928,596	723,945
Long-term debt due within one year (Note 12)	14,703	3,736
	<b>961,723</b>	<b>1,084,709</b>
<b>Long-Term Debt (Note 12)</b>	<b>595,385</b>	<b>307,413</b>
<b>Other Long-Term Liabilities (Note 13)</b>	<b>64,183</b>	<b>60,255</b>
<b>Future Income Taxes (Note 20)</b>	<b>166,476</b>	<b>115,097</b>
	<b>1,787,767</b>	<b>1,567,474</b>
<b>Shareholders' Equity</b>		
Retained earnings	325,911	50,426
Accumulated other comprehensive income (loss) (Note 17)	(9,766)	1,029
	<b>316,145</b>	<b>51,455</b>
Share capital (Note 14)	1,883,336	1,422,843
Contributed surplus	1,244	323
	<b>2,200,725</b>	<b>1,474,621</b>
	<b>\$ 3,988,492</b>	<b>\$ 3,042,095</b>

Commitments, contingencies and guarantees (Note 25)

On behalf of the Board of Directors



Thomas Birks  
Director



Thomas Chambers  
Director

## Consolidated Statements of Earnings

(in thousands)	12 Months Ended October 31, 2008	15 Months Ended October 31, 2007 (restated – Note 2p)ii)
<b>For the Period Ended</b>		
Sales and other operating revenues	<b>\$ 6,777,566</b>	\$ 3,875,816
Cost of sales	<b>(5,750,735)</b>	(3,231,990)
Gross profit and net revenues from services	<b>1,026,831</b>	643,826
Operating, general and administrative expenses	<b>(494,227)</b>	(375,828)
	<b>532,604</b>	267,998
Amortization	<b>(106,832)</b>	(70,391)
	<b>425,772</b>	197,607
Gain on disposal of assets (Note 21)	<b>1,263</b>	35,287
Integration expenses (Note 5)	<b>(14,622)</b>	(20,029)
Recovery of (provision for) pension settlement (Note 16)	<b>3,356</b>	(5,000)
Financing expenses (Note 18)	<b>(37,785)</b>	(36,178)
	<b>377,984</b>	171,687
Provision for corporate income taxes (Note 20)		
Current	<b>(19,422)</b>	(2,617)
Future	<b>(70,280)</b>	(57,709)
Net earnings	<b>\$ 288,282</b>	\$ 111,361
Basic and diluted earnings per share (Note 4)	<b>\$ 1.31</b>	\$ 0.86

## Consolidated Statement of Comprehensive Income

(in thousands)

For the Period Ended	12 Months Ended October 31, 2008
Net earnings	\$ 288,282
Other comprehensive loss	
Realized gain on dedesignated hedged contracts included in net earnings, net of tax of \$1,675	(3,057)
Unrealized loss on cash flow hedges, net of tax of \$5,110	(12,397)
Realized loss on cash flow hedges, net of tax of \$(202)	391
Unrealized loss on available for sale assets, net of tax of \$25	(171)
Unrealized effect of foreign currency translation of foreign operations	(1,720)
Other comprehensive loss	(16,954)
Comprehensive income	\$ 271,328

## Consolidated Statements of Shareholders' Equity

(in thousands)

	Share Capital (Note 14)	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) (Note 17)	Retained Earnings (Deficit)	Total Shareholders' Equity
As at July 31, 2006	\$ 502,760	\$ 308	\$ —	\$ (41,638)	\$ 461,430
Share capital issued	920,083	—	—	—	920,083
Stock-based compensation	—	15	—	—	15
Unrealized effect of foreign currency translation of foreign operations	—	—	1,029	—	1,029
Future income taxes adjustment	—	—	—	5,860	5,860
Future income taxes share issuance costs	—	—	—	12,108	12,108
Share issuance costs	—	—	—	(37,265)	(37,265)
Net earnings for the period as restated (Note 2p)ii)	—	—	—	111,361	111,361
As at October 31, 2007 as restated	\$ 1,422,843	\$ 323	\$ 1,029	\$ 50,426	\$ 1,474,621
Share capital issued	460,493	—	—	—	460,493
Stock-based compensation	—	921	—	—	921
Accounting policy change (Note 2p)i)					
Unrealized gain on dedesignated hedged contracts, net of tax of \$(2,798)	—	—	5,946	—	5,946
Unrealized gain on available for sale assets, net of tax of \$(41)	—	—	213	—	213
Livestock receivables, net of tax of \$36	—	—	—	(76)	(76)
Debt acquisition costs using effective interest method, net of tax of \$(60)	—	—	—	126	126
Other comprehensive loss					
Realized gain on dedesignated hedged contracts, net of tax of \$1,675	—	—	(3,057)	—	(3,057)
Unrealized loss on cash flow hedges, net of tax of \$5,110	—	—	(12,397)	—	(12,397)
Realized loss on cash flow hedges, net of tax of \$(202)	—	—	391	—	391
Unrealized loss on available for sale assets, net of tax of \$25	—	—	(171)	—	(171)
Unrealized effect of foreign currency translation of foreign operations	—	—	(1,720)	—	(1,720)
Future income taxes adjustment (Note 20c)	—	—	—	51	51
Future income taxes share issuance costs	—	—	—	6,070	6,070
Share issuance costs	—	—	—	(18,968)	(18,968)
Net earnings for the period	—	—	—	288,282	288,282
As at October 31, 2008	\$ 1,883,336	\$ 1,244	\$ (9,766)	\$ 325,911	\$ 2,200,725

## Consolidated Statements of Cash Flows

(in thousands)

For the Period Ended	12 Months Ended October 31, 2008	15 Months Ended October 31, 2007 (restated – Note 2p)ii)
<b>Cash From (Used in) Operating Activities</b>		
Net earnings	\$ 288,282	\$ 111,361
Adjustments for items not involving cash		
Amortization	106,832	70,391
Future income tax provision (Note 20)	70,280	57,709
Equity loss of significantly influenced companies (Note 7)	10,963	1,794
Provision for (recovery of) pension settlement (Note 16)	(3,356)	5,000
Employee future benefits (Note 16)	(19,918)	(2,931)
Non-cash financing expenses (Note 18)	4,470	2,796
Gain on disposal of assets (Note 21)	(1,263)	(35,287)
Other items	(24)	1,635
Adjustments for items not involving cash	167,984	101,107
	456,266	212,468
Changes in non-cash working capital items		
Accounts receivable	(270,576)	(22,523)
Inventories	(41,332)	(95,049)
Accounts payable and accrued liabilities	178,703	(28,522)
Prepaid expenses and deposits	(39,340)	(12,336)
Changes in non-cash working capital	(172,545)	(158,430)
Cash from operating activities	283,721	54,038
<b>Cash From (Used in) Financing Activities</b>		
Proceeds from long-term debt	299,953	200,000
Repayment of long-term debt	(4,979)	(374,445)
Proceeds from (repayment of) short-term borrowings	(338,519)	252,787
Repayment of other long-term liabilities, net	(2,615)	(1,414)
Increase in share capital (Note 14)	460,479	920,083
Share issuance costs	(18,971)	(37,291)
Debt refinancing cost	(7,553)	(10,850)
Cash from financing activities	387,795	948,870
<b>Cash From (Used in) Investing Activities</b>		
Property, plant and equipment expenditures	(55,583)	(127,255)
Proceeds on sale of property, plant and equipment	5,333	433,950
Business acquisitions (Note 5)	(31,755)	(1,329,171)
Decrease (increase) in cash in trust	16,710	(16,202)
Decrease (increase) in investments	(69)	8,633
Increase in other long-term assets	(1,519)	(5,438)
Cash used in investing activities	(66,883)	(1,035,483)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>604,633</b>	<b>(32,575)</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>64,150</b>	<b>96,725</b>
<b>Impact on Cash of Unrealized Effect of Foreign Currency Translation of Foreign Operations</b>	<b>227</b>	<b>–</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 669,010</b>	<b>\$ 64,150</b>
Cash and cash equivalents consist of:		
Cash	\$ 183,536	\$ 24,600
Short-term investments	486,129	44,051
Bank indebtedness	(655)	(4,501)
	\$ 669,010	\$ 64,150
Supplemental disclosure of cash paid during the period from operations:		
Interest paid	\$ 61,646	\$ 39,289
Income taxes paid	\$ 16,562	\$ 4,770

## Notes to the Consolidated Financial Statements

*in thousands of Canadian dollars, except as noted*

### 1. Nature of Business

Viterra Inc. (the "Company") is a publicly traded, vertically integrated Canadian agri-business. Business operations include five reporting segments: Grain Handling and Marketing, Agri-products, Agri-food Processing, Livestock Feed and Services, and Financial Products.

On May 29, 2007, the Company acquired effective control of Agricore United ("AU") a Canadian agri-business. The results of operations of AU are included in the Company's consolidated financial statements commencing May 29, 2007.

On July 30, 2007, the Company announced a change in year-end from July 31 to October 31, commencing with the 2007 fiscal year. As a result, the Company has a 12-month fiscal year ended October 31, 2008 compared to a 15-month fiscal year ended October 31, 2007.

The Grain Handling and Marketing segment includes approximately 100 grain facilities, including two producer owned joint venture grain facilities and 12 processing plants strategically located in the prime agricultural growing regions of Western Canada, and two processing plants in the United States of America ("U.S."). This segment also includes five wholly owned port terminal facilities located in Vancouver, British Columbia and Thunder Bay, Ontario, and an ownership interest in an export facility in Prince Rupert, British Columbia. Activity in this segment consists of 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. Earnings in the Grain Handling and Marketing segment are volume driven and are derived primarily from tariffs charged to producers for elevation and cleaning of Canadian Wheat Board ("CWB") grains and from the sales of open market grains. Revenue is also derived through grain handling, blending, drying, storage and other ancillary services, as well as the sale of byproducts.

The Agri-products segment includes an ownership interest in a fertilizer manufacturer, ownership of a fertilizer distributor and a retail network of approximately 250 locations throughout Western Canada. Agri-products sales lines include fertilizer, crop protection products, seed and seed treatments, and equipment.

The Agri-food Processing segment includes the manufacture and marketing of value-added products associated with oats and malt barley for domestic and export markets.

The Livestock Feed and Services segment formulates and manufactures feed products at six feed mills and two pre-mix facilities across Western Canada and at six feed mill locations in Texas, New Mexico and Oklahoma in the U.S.

The Financial Products segment acts as an agent for a Canadian Schedule I chartered bank and provides unsecured trade credit to agricultural customers and secured loans to livestock producers.

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

The Company's earnings follow the seasonal pattern of Prairie grain production. Activity peaks in the spring as new crops are sown and in the fall as mature crops are harvested. The volume of grain shipments are relatively stable through the quarters, but can be influenced by destination customer demand, the CWB export program, and producers' marketing decisions. Sales of the Company's agri-products peak in May through July, corresponding with the growing season, supplemented by additional crop nutrient sales in the late fall. Although relatively steady throughout the year, sales in the Livestock Feed and Services segment tend to peak during the winter months as feed consumption increases. In the Agri-food Processing business, earnings are more fluid with continuous demand for products throughout each quarter. Financial Products' agency fees follow the related pattern of sales of the underlying activity in the Agri-products and Livestock Feed and Services segments.

### 2. Accounting Policies

The Company's accounting policies are in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are reported in Canadian dollars unless specifically stated to the contrary. The following accounting policies are considered to be significant:

#### a) 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 the Company may undertake in the future. Amounts affected include, but are not limited to, the fair value of certain assets; recoverability of investments; property, plant and equipment; intangible assets and goodwill; contingent liabilities; income taxes; pension plan obligations; and stock-based compensation. Management believes the estimates are reasonable; however, actual results could differ

## Notes to the Consolidated Financial Statements

in thousands of Canadian dollars, except as noted

as confirming events occur and any impact thereof would be recorded in future periods.

### b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its controlled subsidiaries and its proportionate share of the accounts of its joint ventures. The Company's interest in its joint ventures is recognized using the proportionate consolidation method at rates that approximate the Company's ownership interest in the respective joint venture.

Subsidiaries <sup>1,2</sup>	Ownership Interest
Agricore United Holdings Inc.	100%
Canadian Pool Agencies Ltd.	100%
Can-Oat Milling <sup>3</sup>	100%
Demeter (1993) Inc. ("Demeter")	100%
Pool Insurance Company	100%
Unifeed Hi-Pro Inc.	100%
Unifeed Inc.	100%
Viterra Asia PTE Ltd.	100%
Western Co-operative Fertilizers Limited ("Westco") <sup>3,4</sup>	100%
XCAN Far East Ltd. ("XCAN")	100%
Joint Ventures	Ownership Interest
Alberta Industrial Mustard Company Limited	50%
CMI Terminal Joint Venture	50%
Gardiner Dam Terminal Joint Venture	50%
Navico Chartering Canada Ltd.	50%
Prairie Malt Limited	42.4%

<sup>1</sup> Agricore United and Pacific Elevator Limited were amalgamated with the Company effective November 1, 2007

<sup>2</sup> Western Pool Terminals Ltd. was amalgamated with the Company effective June 1, 2008

<sup>3</sup> Amalgamated with the Company effective November 1, 2008

<sup>4</sup> Westco holds a 34% joint venture interest in Canadian Fertilizers Limited

### c) Revenue Recognition

Revenues are recognized when risks and rewards of ownership have transferred to the customer and the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, selling price is fixed or determinable, and collection is reasonably assured. Revenues from grain handling are recognized upon delivery of grain commodities to the customer. Transactions in which the Company acts as an agent for the CWB are recorded on a net basis with only the amount of the CWB tariff included in revenue. Revenues from the sale of agri-products, agri-food processing, livestock feed and related products are recognized upon delivery to the customer. Service-related revenues and financial product fees are recognized upon performance of the service.

### d) 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 an original maturity of less than three months. Funds on deposit within joint ventures may not be immediately available to the Company. Cash and cash equivalents at October 31, 2008 had a weighted average interest rate of 2.3% (2007 – 4.6%).

### e) Inventories

Grain inventories include both hedgeable and non-hedgeable commodities. Hedgeable and non-hedgeable grain inventories are valued on the basis of closing market quotations less freight and handling costs. Agri-products, livestock feed, and other inventories consist of raw materials, work in progress and finished goods, and are valued at the lower of cost and net realizable value.

### f) 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.

Investments designated as available for sale are recorded at fair value in the consolidated balance sheet, with unrealized gains and losses, net of related income taxes, recorded in other comprehensive income.

Through a consortium, the Company has a joint and several interest in Prince Rupert Grain terminal ("PRG"). The Company's non-controlling interest in PRG is recorded at a nominal amount since the value of the debt exceeds the depreciated value of the terminal. At October 31, 2008, PRG had approximately \$296 million in loans due to a third party. The loans mature in 2015 (\$182 million) and 2035 (\$114 million) and are secured by the terminal without recourse to the consortium members.

## Notes to the Consolidated Financial Statements

*in thousands of Canadian dollars, except as noted*

### g) Property, Plant and Equipment and Amortization

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, and any resulting writedowns 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:

Land	0%
Buildings	3 - 10%
Machinery and equipment	7 - 33%
Site and leasehold improvements	3 - 20%

The Company changed its estimate of the useful life of certain property, plant and equipment in the current year as disclosed in Note 3.

### h) 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 in which the tax rates became substantively enacted. A valuation allowance would be provided to the extent that it is more likely than not that future income tax assets would not be realized. Income taxes are recognized in the income statement except to the extent that it relates to items recognized directly in other comprehensive income or equity, in which case the tax is recognized in other comprehensive income, or equity.

### i) Deferred Financing Costs

Costs incurred to obtain short-term borrowings are deferred and amortized on a straight-line basis over the term of the credit agreement. Amortization is a non-cash charge to financing expenses.

Financing costs related to long-term debt were reclassified November 1, 2007 against long-term debt and adjusted to reflect the use of the effective interest rate method instead of

the straight-line method previously applied as described in Note 2p)i).

### j) Employee Future Benefits

The Company maintains both defined benefit and defined contribution pension plans for employees. The Company also has a closed retirement allowance plan and other employee future benefits, largely in respect of extended health and dental plans and life insurance, to eligible employees upon retirement. The cost of all future benefits is accrued in the year in which the employee services are rendered, based on actuarial valuations.

The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method pro-rated on service, which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. 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 expected to receive benefits under the benefit plan.

The Company also contributes to a multi-employer defined benefit pension plan which is accounted for as a defined contribution plan as the Company has insufficient information to apply defined benefit plan accounting.

### k) Intangible Assets

Intangible assets consist primarily of supply and merchandising contracts and marketing related assets with defined lives. These assets are amortized on a straight-line basis over their estimated useful lives which range from two to ten years. Should the carrying amount of the intangible asset exceed its fair value, an impairment loss would be recognized and charged to earnings at that time.

### l) Goodwill

Goodwill represents the excess of the purchase price over the fair values assigned to identifiable net assets acquired. The Company assesses annually whether there has been an impairment in the carrying value of goodwill based on the fair value of the related business operations. Should the carrying

## Notes to the Consolidated Financial Statements

*in thousands of Canadian dollars, except as noted*

amount of the goodwill exceed its fair value, an impairment loss would be recognized and charged to earnings at that time.

### m) Foreign Currency Transactions

Self-sustaining operations have been translated into Canadian dollars using the current rate method. Monetary and non-monetary assets and liabilities are translated at the period-end exchange rate while revenues and expenses are translated at the rate of exchange prevailing at the transaction date. Exchange gains and losses arising from the translation of the financial statements are deferred and included in a currency translation account within accumulated other comprehensive income (loss).

Integrated operations have been translated into Canadian dollars using the temporal method. Monetary assets and liabilities are translated at the period-end exchange rate while non-monetary assets and liabilities, revenues and expenses are translated at the rate of exchange prevailing at the transaction date. Exchange gains and losses arising from the translation of the financial statements are reflected in earnings during the period in which they occur.

For other foreign currency balances of the Company, monetary assets and liabilities are translated into Canadian dollars at the rate in effect at the balance sheet date and non-monetary items are translated at the rate in effect on the transaction date. Exchange gains or losses arising from translations are recognized in earnings in the period in which they occur.

### n) Stock-Based Compensation Plans

Deferred share units, performance share units and restricted share units are amortized over their vesting periods and re-measured at each reporting period, until settlement, using the quoted market value. The Company expenses stock options 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 amount to contributed surplus. Upon exercise of the option, amounts recorded in contributed surplus are transferred to share capital.

### o) Environmental Costs and Asset Retirement Obligations

Environmental costs that relate to current operations are expensed or capitalized as appropriate. Environmental costs are capitalized if the costs extend the life of the property, increase its capacity, mitigate or prevent contamination from future operations, or relate to legal asset retirement

obligations. Costs that relate to existing conditions caused by past operations and that do not contribute to current or future revenue generation are expensed. Provisions for estimated costs are recorded when environmental remedial efforts are likely and the costs can be reasonably estimated. In determining the provisions, the Company uses the most current information available, including similar past experiences, available technology, regulations in effect, the timing of remediation and cost-sharing arrangements.

The Company recognizes its obligations to retire certain tangible long-lived assets. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows through charges to earnings. A gain or loss may be incurred upon settlement of the liability.

### p) Changes to Significant Accounting Policies

#### i) Financial Instruments

Effective November 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; Section 3251, Equity; Section 1530, Comprehensive Income; Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation.

Under these new standards, all financial assets and financial liabilities, including derivatives, are initially recognized at transition at fair value or amortized cost on the consolidated balance sheet.

Financial derivative instruments are used by the Company to reduce its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. In the normal course of business, the Company does not hold or issue derivative instruments for derivative trading purposes. Any change in the value of the derivatives is reported in earnings, unless the derivative qualifies as a cash flow hedge and hedge accounting is applied. At November 1, 2007, the Company identified only one contract with an embedded derivative which had nominal value.

## Notes to the Consolidated Financial Statements

in thousands of Canadian dollars, except as noted

During the year, the Company has designated derivative instruments, used to manage variable interest rates associated with some of the Company's debt portfolio and exposures to changes in foreign currency exchange rates, as cash flow hedges. Changes in fair value of a derivative designated as a cash flow hedge for accounting purposes are reported in other comprehensive income. To the extent the change in fair value of the derivative is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized.

Transaction costs related to financial assets or liabilities, other than those held for trading, adjust the carrying amount of the underlying instrument. These costs are then amortized over the instrument's remaining expected life using the effective interest rate method and are included as part of financing expenses. Transaction costs related to financial assets or liabilities classified as held for trading are expensed as incurred.

These changes in accounting policy were applied retrospectively without restatement of comparative financial statements with the exception of the reclassification of the currency translation account of \$1,029 to accumulated other comprehensive income. As at November 1, 2007, the Company has recorded the following adjustments:

	Accumulated Other Comprehensive Income Increase (Decrease)	Retained Earnings Increase (Decrease)	Total Increase (Decrease)
Investments	\$ 254	\$ –	\$ 254
Accounts receivable	8,744	–	8,744
Other long-term assets	–	(6,759)	(6,759)
	\$ 8,998	\$ (6,759)	\$ 2,239
Long-term debt	\$ –	\$ (6,833)	\$ (6,833)
Future income tax – liability	2,839	24	2,863
	\$ 2,839	\$ (6,809)	\$ (3,970)
Retained earnings	\$ –	\$ 50	\$ 50
Accumulated other comprehensive income	6,159	–	6,159
	\$ 6,159	\$ 50	\$ 6,209
	\$ 8,998	\$ (6,759)	\$ 2,239

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments:

- The fair value of short-term financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include cash, cash in trust, short-term investments, accounts receivable, bank indebtedness, short-term borrowings and accounts payable and accrued liabilities.
- Investments that are classified as available for sale have been recorded at their fair value based on closing market quotations, if available. The fair value of equity investments that do not have an active trading market were recorded at cost.
- When financial instruments lack an available trading market, fair value is determined using management's estimates and is calculated using market factors for instruments with similar characteristics and risk profiles.
- The fair value of long-term debt with fixed interest rates is estimated by discounting the expected future cash flows using the risk-free interest rate on an instrument with similar terms adjusted for an appropriate risk premium for the Company's credit profile.
- The fair value of interest rate swaps was estimated by discounting net cash flows of the swaps using forward interest rates for swaps of the same remaining maturity.
- Foreign exchange contracts, commodity contracts and exchange-traded derivatives are valued based on closing market quotations.
- The fair values of long-term receivables and payables were calculated using discounted cash flows.

### Available for Sale

Financial assets classified as available for sale are carried at fair value with the changes in fair value initially recorded in other comprehensive income until they are assessed to be impaired or disposed of at which time they flow through earnings. Securities that are classified as available for sale and do not have a readily available market value are recorded at cost.

### Held for Trading

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in the value recognized in cost of sales.

## Notes to the Consolidated Financial Statements

in thousands of Canadian dollars, except as noted

Instruments designated as cash flow hedges follow hedge accounting.

### **Held for Trading – Designated**

The Company has elected to designate short-term investments as held for trading. These instruments are accounted for at fair value with the change in the value recognized in sales and other operating revenues.

### **Held to Maturity**

The Company does not have any financial instruments that were classified as held to maturity.

### **Loans and Receivables**

Loans and receivables are accounted for at amortized cost using the effective interest rate method.

### **Other Financial Liabilities**

Other financial liabilities are accounted for at amortized cost using the effective interest rate method.

## ii) **Non-Hedgeable Grain Inventories and Related Commodity Contracts**

The Company has historically classified its grain inventories and related derivative contracts into two categories. Hedgeable grain inventories are those for which the market risk associated with inventory positions is managed through exchange traded futures instruments. Non-hedgeable grain inventories include inventories for which there are no exchange traded instruments but where cash traded instruments are commonly used to manage market risk. The Company manages the market risk associated with inventory and open contracts on a combined basis.

Prior to October 31, 2007, non-hedgeable grain inventories and related commodity contracts were valued on a combined basis at the lower of cost and net realizable value. During the year, the Company adopted the policy of valuing its non-hedgeable grain inventories on the basis of market quotations less freight and handling costs. Gains and losses on related open grain purchase and sales contracts are based on estimated fair value. This new policy, in addition to providing consistency with the existing accounting policy for hedgeable inventories and commodities is consistent with the fair value measurement requirements adopted on November 1, 2007 for financial instruments and other derivative contracts of the Company. The impact of this change in accounting policy has been recorded retrospectively with restatement of the prior year.

As at October 31, 2007, the Company has recorded the following adjustments as a result of this change in accounting policy:

	<b>Increase</b>
Accounts receivable	\$ 2,149
Inventories	\$ 16,878
Accounts payable	\$ 11,242
Future income taxes	\$ 2,491
Retained earnings, as at October 31, 2007	\$ 5,294

Net earnings for the 15 months ended October 31, 2007 increased by \$5.3 million, net of a tax provision of \$2.5 million. Basic and diluted earnings per share increased by \$0.04 to \$0.86 per share. There was no impact of this change in accounting policy on the deficit of the Company as at July 31, 2006. The Company no longer supports the former accounting systems associated with non-hedgeable grain inventories; therefore, the impact of this accounting policy change to earnings for the year ended October 31, 2008 is not determinable.

- iii) The Company also adopted CICA Handbook Section 1506, Accounting Changes and Section 1535, Capital Disclosures, effective November 1, 2007. These sections resulted in additional financial statement note disclosure.

## 3. **Change in Accounting Estimate**

In 2008, the Company changed its estimate of the useful life of certain property, plant and equipment. The revised estimates better reflect the expected useful lives of these assets. The change in the estimated useful life was applied prospectively and had the effect of decreasing amortization expense by \$5.7 million in the year ended October 31, 2008.

## Notes to the Consolidated Financial Statements

in thousands of Canadian dollars, except as noted

### 4. Earnings Per Share

	12 Months Ended October 31, 2008	15 Months Ended October 31, 2007
Net earnings	\$ 288,282	\$ 111,361
Denominator for basic earnings per share amounts:		
Weighted average number of shares outstanding <sup>1</sup>	219,826	129,133
Basic earnings per share	\$ 1.31	\$ 0.86
Denominator for diluted earnings per share amounts:		
Weighted average number of shares outstanding <sup>1</sup>	219,830	129,137
Diluted earnings per share	\$ 1.31	\$ 0.86

<sup>1</sup> Number of shares in thousands

### 5. Business Acquisitions

#### a) Fiscal 2008

On March 3, 2008, Unifeed Hi-Pro Inc., a wholly owned subsidiary of the Company doing business as Hi-Pro Feeds, purchased certain businesses of Sunrise Feed, LLC in Cheyenne and Elk City, Oklahoma. The acquisition includes a feed mill with 100,000 tonnes/year capacity and a retail outlet in both Cheyenne and Elk City. Sunrise Feed manufactures and sells beef, horse and other animal feed and pasture supplements into the rancher market.

On April 7, 2008, the Livestock Feed and Services division operating as Unifeed, concluded its purchase of V-S Feed and Agri-Supplies Ltd. ("V-S Feed") in Ponoka, Alberta. The acquisition includes a feed pre-mix mill with 8,000 tonnes/year capacity and a retail outlet that sells farm supply and feed products.

On April 28, 2008, Unifeed Hi-Pro Inc. purchased certain businesses of Gore Bros., Inc. and Gore's Trucking, Inc. for total consideration of U.S. \$25.3 million. The acquisition added an additional two feed mills in Clovis, New Mexico and Comanche, Texas.

Net assets acquired at fair value:

Current assets	\$ 24,040
Property, plant and equipment	15,160
Goodwill	2,849
Current liabilities	(10,294)
Cash consideration	\$ 31,755

These acquisitions have been funded through current operating cash flows.

Earnings derived from the businesses purchased have been included in the Company's consolidated financial statements commencing from the respective acquisition dates.

The acquisitions were accounted for using the purchase method, whereby the purchase consideration was allocated to the estimated fair values of the assets acquired and liabilities assumed at the effective date of the purchase.

#### b) Fiscal 2007

On May 29, 2007, the Company acquired effective control of Agricore United ("AU"), a Canadian agri-business. On June 15, 2007, the Company acquired all of the remaining Limited Voting Common Shares of AU under a court approved Plan of Arrangement at which time AU became a wholly-owned subsidiary of the Company. The results of the operations of AU are included in the Company's consolidated financial statements commencing May 29, 2007.

The total purchase price of \$1,271.8 million consists of \$1,233.9 million paid for the AU common shares, \$27.1 million for the AU preferred shares (comprised of \$14.6 million paid by the Company and \$12.5 million redeemed by AU, including accrued dividends) and transaction costs paid by the Company. The total purchase price was financed by the Company issuing 113.9 million common shares for proceeds of \$882.8 million, net of share issue costs of \$37.3 million (Note 14), borrowings of \$330 million under a Bridge Facility (Note 11) and the remainder by cash or cash equivalents and other short-term borrowings.

The acquisition was accounted for using the purchase method, whereby the purchase consideration was allocated to the estimated fair values of the assets acquired and liabilities assumed at the effective date of the purchase. The Company allocated the purchase consideration as follows based upon the work of third-party valuation experts. The following table summarizes the final allocation of the fair value of assets acquired and liabilities assumed:

## Notes to the Consolidated Financial Statements

in thousands of Canadian dollars, except as noted

Net assets acquired at fair value:	
Current assets	\$ 926,976
Property, plant and equipment	1,254,170
Intangible assets	21,303
Goodwill	296,743
Other long-term assets	45,395
Current liabilities	(798,863)
Future income tax liabilities, net	(75,261)
Term debt (all current)	(375,730)
Other long-term liabilities	(22,900)
Total purchase price	1,271,833
Add: Bank indebtedness acquired, net <sup>1</sup>	57,338
Cash consideration, including bank indebtedness assumed	\$ 1,329,171

<sup>1</sup> Cash and short-term investments are deducted from bank indebtedness

Acquisition costs incurred or accrued in the above purchase price allocation are comprised of \$64.2 million of employee related costs (primarily retention and severance), professional fees of \$37.1 million, change in control expenses related to the repayment of AU debt of \$41 million, a break-fee paid to James Richardson International ("JRI") of \$35 million and \$18 million of other related costs, offset by \$7 million in interest on subscription receipts funds held in escrow and funds not yet disbursed to AU shareholders. Of these amounts, \$19.2 million remained outstanding and unpaid at October 31, 2008.

For the year ended October 31, 2008, the Company incurred \$18.2 million of costs arising from the post acquisition integration of AU and the consolidation of operations of which \$3.6 million were capitalized and \$14.6 million were expensed. Since integration began, the Company has incurred \$40.9 million of costs of which \$6.3 million were capitalized and \$34.6 million were expensed. The Company's integration of AU and the consolidation of operations is substantially complete with any further costs to be incurred expected to be minimal.

As a result of the acquisition, the Company reinstated \$21 million of its own pre-existing future income tax assets that had previously been subject to a valuation allowance and recognized \$9.2 million of capital losses that had previously not been recognized. These amounts have reduced future income tax liabilities assumed in the purchase price allocation.

Management believes that the estimates used for the above allocation are reasonable, however actual results could differ as confirming events occur which could require future adjustments to goodwill and related accruals.

### Asset Dispositions

Concurrent with the acquisition of AU, the Company entered into an agreement with Cargill to sell an interest in certain assets acquired from AU and the Company's Vancouver port terminal to Cargill for total fixed consideration of \$155 million. The consideration the Company received was Cargill's 50% interest in the Cascadia Terminal Partnership and \$70 million of cash consideration, plus amounts related to working capital and other closing adjustments. As a result of this transaction, the Company recorded a gain on disposal of assets of \$30.4 million related to its Vancouver port terminal.

The Company also sold certain assets acquired from AU to JRI for proceeds of \$255 million, plus amounts related to working capital and other closing adjustments, for no gain or loss. The proceeds of disposition on the asset sale to JRI were used to reduce the Company's Bridge Facility (Note 11) and the proceeds of disposition on the asset sale to Cargill, as well as the working capital and other closing adjustments related to both the Cargill and JRI asset dispositions, were used to reduce other short-term borrowings. With the sale of its Vancouver port terminal, the Company dissolved Pacific Gateway Terminals Limited, a joint venture with JRI, without penalty, effective June 29, 2007.

## 6. Inventories

As at	2008	2007
Grain	\$ 352,489	\$ 461,275
Agri-products	423,602	280,797
Livestock feed	39,095	24,915
Agri-food Processing	22,757	18,708
	<b>\$ 837,943</b>	<b>\$ 785,695</b>

## 7. Investments

As at	2008	2007
Investments in significantly influenced companies – equity method	\$ 223	\$ 11,379
Other long-term investments	7,422	7,819
	<b>\$ 7,645</b>	<b>\$ 19,198</b>

Equity loss of significantly influenced companies of \$11.0 million (2007 – \$1.8 million) is included in sales and other operating revenues.

**Notes to the Consolidated Financial Statements***in thousands of Canadian dollars, except as noted***8. Property, Plant and Equipment**

<b>As at</b>	<b>2008</b>	<b>Accumulated Amortization 2008</b>	<b>2007</b>	<b>Accumulated Amortization 2007</b>
Land	\$ 49,751	\$ –	\$ 48,983	\$ –
Site and leasehold improvements	73,455	6,294	57,714	3,056
Buildings	556,702	53,944	545,868	28,435
Machinery and equipment	690,441	171,215	662,926	105,035
Construction in progress	15,963	–	13,655	–
	<b>1,386,312</b>	<b>\$ 231,453</b>	1,329,146	\$ 136,526
Accumulated amortization	(231,453)		(136,526)	
Net book value	\$ 1,154,859		\$ 1,192,620	

Amortization of property, plant and equipment for the year ended October 31, 2008 is \$99.1 million (2007 – \$67.9 million).

**9. Other Long-Term Assets**

<b>As at</b>	<b>2008</b>	<b>Accumulated Amortization 2008</b>	<b>2007</b>	<b>Accumulated Amortization 2007</b>
Deferred pension assets (Note 16)	\$ 51,564	\$ –	\$ 28,054	\$ –
Deferred financing costs	12,673	7,296	18,449	5,004
Other	18,824	6,527	22,450	2,716
	<b>83,061</b>	<b>\$ 13,823</b>	68,953	\$ 7,720
Accumulated amortization	(13,823)		(7,720)	
Net book value	\$ 69,238		\$ 61,233	

Amortization of deferred financing costs of \$3.1 million (2007 – \$2.8 million) is included in financing expenses. Amortization of other assets of \$4.0 million (2007 – \$1.5 million) is included in amortization.

**10. Intangible Assets**

Amortization of intangible assets for the year ended October 31, 2008 is \$3.7 million (2007 – \$1.0 million).

**11. Short-Term Borrowings**

<b>As at</b>	<b>2008</b>	<b>2007</b>
Bridge Facility (a)	\$ –	\$ 235,281
Revolving credit facility (b)	–	60,000
Members' demand loans (c)	17,769	16,566
Subsidiaries and proportionate share of joint ventures (d)	–	40,680
	<b>\$ 17,769</b>	\$ 352,527

**a) Bridge Facility**

On May 28, 2007, the Company entered into a \$750 million non-revolving Bridge Facility ("Bridge Facility") with a syndicate of financial institutions which was repaid in full on May 15, 2008 and bore interest at prime plus 1.5% increasing to 1.75% after November 24, 2007 and 2.25% after February 22, 2008; or Banker's Acceptance/London Interbank Offered Rate ("LIBOR") plus 2.5%, increasing to 2.75% after November 24, 2007 and 3.25% after February 22, 2008. The prime rate was 6.25% at October 31, 2007 and the LIBOR was at 4.93% at October 31, 2007. The Bridge Facility was secured by a first charge (*pari passu* with the Series 2006-1 Notes) on property, plant and equipment of the Company and certain of its subsidiaries, and the capital stock of certain of its subsidiaries (collectively, the "Term Loan Priority Collateral") and a second charge on all other assets of the Company and certain of its subsidiaries. An underwriting fee was charged on any outstanding portion of the Bridge Facility. The Company paid an underwriting fee of \$0.6 million on August 26, 2007 and November 24, 2007 and \$1.2 million on February 22, 2008. The Company drew \$330 million to fund the balance of the acquisition price for AU shares and \$362 million to fund the repayment of outstanding long-term debt held by AU, inclusive of pre-payment penalties of \$33.6 million. The pre-payment penalties were related to AU change in control provisions and had been included in the purchase price allocation as an adjustment to the fair value of the long-term debt assumed.

Concurrent with the settlement of AU's \$525 million revolving credit facility, \$255 million of the proceeds related to the JRI asset disposition (Note 5) were used by the Company to reduce the amount owing under the Bridge Facility. The Company also used the net proceeds from the issuance of its Series 2007-1 Notes (Note 12) to reduce the amount owing under the Bridge Facility. This Bridge Facility was replaced by the Credit Facility on May 15, 2008 (Note 12a)).

**b) Revolving Credit Facility**

On August 10, 2007, the Company entered into a \$600 million senior secured revolving credit facility with a syndicate of financial institutions. On November 19, 2007, the Company exercised its option to increase the facility to \$800 million. The facility is secured by a first charge on all assets of the Company

and certain of its subsidiaries, other than the Term Loan Priority Collateral, and a second charge on the Term Loan Priority Collateral. The Company can draw on the facility at an interest rate of Banker's Acceptance ("BA") plus 0.9% to 1.5% or at prime to prime plus 0.50% subject to the Company's fixed charge ratio. At October 31, 2008, BA was 2.56% (2007 – 4.89%) and prime was 4% (2007 – 6.25%). The facility expires on August 10, 2010, and may be extended at the option of the Company for an additional two years. The facility replaced the Company's \$250 million senior secured revolving credit facility and AU's \$525 million revolving credit facility

Concurrent with the Company entering into the senior secured revolving credit facility, AU terminated its securitization agreement with an independent trust and repurchased, for \$40.3 million, the co-ownership interest in its right to receive reimbursement of amounts advanced to producers arising from the delivery of grains that are held in accordance with an agency contract between AU and the CWB.

At October 31, 2008, availability under the revolving credit facility was \$542 million (2007 – \$351 million).

**c) Members' Demand Loans**

Members' demand loans are unsecured funds loaned to the Company by non-institutional investors and employees. At October 31, 2008, the loans bear interest at 2.90% (2007 – 4.05%).

**d) Subsidiaries and Proportionate Share of Joint Ventures**

The Company's wholly-owned Japanese subsidiary, XCAN, has a Japanese Yen ("JPY") 2 billion credit facility which is guaranteed by the Company on an unsecured basis and a JPY 100 million credit facility, both at local short-term market rates with no fixed expiry date. In addition, this subsidiary had a U.S. \$16 million revolving credit facility bearing interest at 0.75% per annum over LIBOR which matured on February 29, 2008. LIBOR was 5.0% at October 31, 2007.

Other subsidiaries and proportionate share of joint ventures' short-term borrowings consist of bank operating loans, which are secured by a first charge against present and future assets.

## Notes to the Consolidated Financial Statements

in thousands of Canadian dollars, except as noted

### 12. Long-Term Debt

As at	2008	2007
Viterra		
Credit facility (a)	\$ 225,000	\$ –
Series 2007-1 Notes (b)	200,000	200,000
Series 2006-1 Notes (c)	100,000	100,000
Members' term loans (d)	3,404	3,494
	<b>528,404</b>	<b>303,494</b>
Subsidiaries' and proportionate share of		
joint ventures' debt		
Credit facility (a)	90,338	–
Other (e)	2,767	7,655
	<b>93,105</b>	<b>7,655</b>
Sub-total	<b>621,509</b>	<b>311,149</b>
Less unamortized debt costs	11,421	–
Total long-term debt	<b>610,088</b>	<b>311,149</b>
Less portion due within one year:		
Credit facility	9,000	–
Members' term loans	1,481	693
Subsidiaries' and proportionate share		
of joint ventures' debt	4,222	3,043
Long-term debt due within one year	<b>14,703</b>	<b>3,736</b>
Long-term debt due in excess of one year	<b>\$ 595,385</b>	<b>\$ 307,413</b>

#### a) Credit Facility

On May 15, 2008, the Company completed a \$400 million, five-year term secured credit facility with a syndicate of financial institutions. The facility is secured by a first charge (*pari passu* with the Series 2006-1 Notes and Series 2007-1 Notes) on the Term Loan Priority Collateral and a second charge on all other assets of the Company and certain of its subsidiaries.

Upon closing, the Company received \$300 million in proceeds from the credit facility, comprised of \$225 million Canadian and \$75 million U.S. Approximately \$232 million of the proceeds were used to fully repay the remaining outstanding amounts on the Company's Bridge Facility included in short-term borrowings. The balance of the proceeds will be used for general corporate purposes, including the funding of potential future acquisitions. The Company had an option to draw an additional \$100 million up to May 15, 2009 which it chose to exercise on December 17, 2008.

Based upon the Company's current credit ratings and interest rate swaps, the hedged fixed rate of interest on the credit facility is approximately 5.9% on Canadian dollar borrowings and approximately 6.1% on U.S. dollar borrowings, with minimum mandatory principal repayments of 4% per annum.

Beginning with the fiscal year ending October 31, 2009, if, at the end of a fiscal year, the debt to EBITDA ratio, as defined in the credit facility agreement, is equal to or exceeds 3.75:1.0, the Company must repay a portion of the outstanding loans equal to 50% of the free cash flow, as defined in the credit agreement, from the fiscal year.

The fair value of the amount drawn on the credit facility at October 31, 2008 was approximately \$315 million.

#### b) Series 2007-1 Notes

On August 1, 2007, the Company completed the offering of \$200 million in Senior Unsecured Notes ("Series 2007-1 Notes") bearing interest at 8.5% and maturing August 1, 2017. The Company has certain optional redemption rights with respect to the Series 2007-1 Notes. Prior to August 1, 2012, the Company may redeem up to 35% of the aggregate principal amount of the Series 2007-1 Notes at a redemption price of 108.5% of their principal amount, plus accrued and unpaid interest to the redemption date, with the net proceeds received by the Company from one or more public equity offerings. Prior to August 1, 2012, the Company may redeem all or part of the Series 2007-1 Notes at a redemption price equal to 100% of the principal amount thereof, plus the Applicable Redemption Premium (as defined in the Second Supplemental Trust Indenture between the Company and CIBC Mellon Trust Company dated August 1, 2007) and accrued and unpaid interest to the redemption date. On or after August 1, 2012 and prior to maturity, the Company may redeem all or part of the Series 2007-1 Notes at the following redemption prices (expressed as percentages of the principal amount at maturity), plus accrued and unpaid interest to the redemption date, if redeemed during the 12-month period commencing August 1 in the applicable year: 2012 at 104.25%, 2013 at 103.1875%, 2014 at 102.125%, 2015 at 101.0625% and 2016 at 100%. The Series 2007-1 Notes rank *pari passu* with the Series 2006-1 Notes and the Credit Facility (Note 12a)), which includes a first charge on the Term Loan Priority Collateral and a second charge on all other assets of the Company and certain of its subsidiaries. The Company used the net proceeds to repay a portion of the short-term borrowings outstanding under its Bridge Facility.

The fair value of the Series 2007-1 Notes at October 31, 2008 was approximately \$184 million (2007 – \$204 million), based upon the quoted market price.

#### c) Series 2006-1 Notes

On April 6, 2006, the Company completed the offering of \$100 million in Senior Unsecured Notes ("Series 2006-1

## Notes to the Consolidated Financial Statements

in thousands of Canadian dollars, except as noted

Notes”) bearing interest at 8% and maturing April 8, 2013. The Company has certain optional redemption rights with respect to the Series 2006-1 Notes. Prior to April 8, 2009, the Company may redeem up to 35% of the aggregate principal amount of the Series 2006-1 Notes at a redemption price of 108% of their principal amount, plus accrued and unpaid interest, to the redemption date, with the net proceeds received by the Company from one or more public equity offerings. Prior to April 8, 2009, the Company may redeem all or part of the Series 2006-1 Notes at a redemption price equal to 100% of the principal amount thereof, plus the Applicable Redemption Premium (as defined in the First Supplemental Trust Indenture between the Company and CIBC Mellon Trust Company dated April 6, 2006) and accrued and unpaid interest to the redemption date. On or after April 8, 2009 and prior to maturity, the Company may redeem all or part of the Series 2006-1 Notes at the following redemption prices (expressed as percentages of the principal amount at maturity), plus accrued and unpaid interest to the redemption date, if redeemed during the 12-month period commencing April 8 in the applicable year: 2009 at 104%, 2010 at 102%, 2011 at 101% and 2012 at 100%. The Series 2006-1 Notes rank *pari passu* with Series 2007-1 Notes and with the Credit Facility (Note 12a)), which includes a first charge on the Term Loan Priority Collateral and a second charge on all other assets of the Company and certain of its subsidiaries.

The fair value of the Series 2006-1 Notes at October 31, 2008 was approximately \$95.0 million (2007 – \$101.3 million) based upon the quoted market price.

### d) Members' Term Loans

Members' term loans are unsecured and consist of one-year to seven-year loans with non-institutional investors and employees. Interest is payable semi-annually at interest rates that vary from 3.1% to 8.0% (2007 – 3.8% to 8.25%) and a weighted average interest rate of 4.9% (2007 – 5.1%) based on the face value of the debt instrument.

The fair value of members' term loans at October 31, 2008 was approximately \$3.5 million (2007 – \$3.6 million).

### e) Subsidiaries' and Proportionate Share of Joint Ventures' Debt – Other

The subsidiaries' and the proportionate share of joint ventures' debts bear interest at variable rates. The weighted average interest rate of subsidiaries' and the proportionate share of joint ventures' debts, other than the Credit Facility, is 6.5% (2007 – 5.7%) based on the face value of the debt instrument. The debts mature in 2009 to 2014. The debts are

secured by certain assets and some are subject to meeting certain covenants.

The fair value at October 31, 2008 of subsidiaries' and the proportionate share of joint ventures' debts was approximately \$2.8 million (2007 – \$7.7 million).

### f) Scheduled Repayments of Long-Term Debt

The following summarizes the aggregate amount of scheduled repayments of long-term debt in each of the next five years and thereafter:

For the Years Ended	Subsidiaries and Proportionate Share of Joint		
	Viterra	Ventures	Total
October 31			
2009	\$ 10,482	\$ 4,221	\$ 14,703
2010	10,034	4,064	14,098
2011	9,462	4,064	13,526
2012	9,259	4,060	13,319
2013	289,167	76,431	365,598
Subsequent years	200,000	265	200,265
	\$ 528,404	\$ 93,105	\$ 621,509

## 13. Other Long-Term Liabilities

As at	2008	2007
Asset retirement obligations (a)	\$ 13,938	\$ 13,071
Contributions in aid of construction (b)	7,413	6,308
Grain handling agreements	4,400	5,600
Stock-based compensation plans (Note 15)	9,638	12,758
Other employee future benefits (Note 16)	14,095	13,994
Pension (Note 16)	3,808	4,548
Cash flow hedges (Note 22b)	10,121	–
Other	770	3,976
	\$ 64,183	\$ 60,255

### a) Asset Retirement Obligations

In 1987, Westco, which manufactured phosphate and nitrate fertilizers, closed two of its facilities. The asset retirement obligations represent the best estimate by management of the legal obligations 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.

The current and long term portions of the asset retirement obligations increased in the current year as a result of a

## Notes to the Consolidated Financial Statements

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\$9.9 million revision in estimated cash flows and \$0.5 million in accretion expense offset by \$9.7 million in liabilities settled during the period.

At October 31, 2008, the Company estimated that the undiscounted cash flow required to settle the asset retirement obligations was approximately \$23.9 million (2007 – \$22.3 million), which is expected to be settled over the 2009 through 2015 period. The credit adjusted risk-free rates at which the estimated cash flows have been discounted range from 4% to 5.4%.

### b) Contributions in Aid of Construction

Contributions in aid of construction represent payments received from producers pursuant to grain storage licence agreements.

## 14. Share Capital

### a) Common Voting Shares

Authorized

Unlimited Common Voting Shares

	Common Voting Shares	
	Number <sup>1</sup>	Amount
Balance, July 31, 2006	90,250,764	\$ 502,760
Share issuance for cash	113,905,586	920,083
Balance, October 31, 2007	204,156,350	1,422,843
Share issuance for cash	32,892,863	460,479
Adjustment to share capital from contributed surplus for options exercised	–	14
Balance, October 31, 2008	237,049,213	\$ 1,883,336

<sup>1</sup> Number of shares are not shown in thousands

### b) Share Issuance

On May 9, 2008, the Company issued 28.6 million common shares, on a bought deal basis at a price of \$14.00 per common share, to a syndicate of underwriters as part of a \$400.4 million offering. As well, on May 9, 2008, in relation to the \$400.4 million offering, the underwriters exercised in full an Over-Allotment Option to purchase an additional 4.3 million common shares at a price of \$14.00 per common share for additional gross proceeds of \$60.1 million. The underwriters' Over-Allotment Option closed on May 14, 2008.

The Company raised gross proceeds from the common share offering and subsequent over-allotment of \$460.5 million. Underwriters' fees and other costs associated with the

offering and the over-allotment were approximately \$19.0 million. In accordance with the capital nature of this transaction, the associated costs are reflected as a charge to shareholders' equity and reflected in the retained earnings of the Company.

The fiscal 2007 acquisition of the Limited Voting Common Shares of AU (Note 5) was substantially funded by proceeds of \$882.8 million, net of share issue costs of \$37.3 million, from four subscription receipt offerings, comprised of three public market bought deals and a private placement.

The 113.9 million subscription receipts were exchanged into an equivalent number of common shares of the Company upon the take-up by the Company of the AU Limited Voting and Common Shares on May 29, 2007. In accordance with the capital nature of these transactions, underwriter fees and other costs of \$25.2 million, net of taxes, were reflected as a fiscal 2007 charge to retained earnings in shareholders' equity.

## 15. Stock-Based Compensation Plans

The Company operates three active stock-based compensation plans: a Deferred Share Unit Plan ("DSU") for independent directors and a Restricted Share Unit Plan ("RSU") and a Performance Share Unit Plan ("PSU") for designated executives. In addition the Company's Management Stock Option Plan was reactivated in fiscal 2008 and an Employee Share Purchase Plan ("ESP") began on July 1, 2008.

### a) Deferred Share Units

Under the Company's DSU Plan, 40% of each director's annual retainer is paid in DSUs. A DSU is a notional unit that reflects the market value of a single common share of the Company. In addition, on an annual basis directors can elect to receive any percentage from 40% to 100% of their annual retainer and any additional fees for the immediately succeeding year in the form of DSUs. Each DSU fully vests upon award. The DSUs will be redeemed for cash, or for common shares of the Company purchased on the open market, at the director's option upon a director leaving the Board. The redemption amount will be based upon the weighted average of the closing prices of the common shares of the Company on the Toronto Stock Exchange for the last 20 trading days prior to the redemption date, multiplied by the number of DSUs held by the director. During fiscal 2008, 22,000 RSUs/PSUs were converted to DSUs by Senior Executives. The total DSUs granted were 80,560 during the year ended October 31, 2008 (2007 – 95,856). The Company recorded a recovery of compensation costs related to

## Notes to the Consolidated Financial Statements

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outstanding DSUs of \$0.3 million for the year ended October 31, 2008 (2007 – expense of \$1.6 million).

### b) Restricted Share Units

Under the Company's RSU Plan, each designated executive receives an annual grant of RSUs as part of their compensation. Each RSU represents one notional common share that entitles the participant to a payment of one common share of the Company, purchased on the open market, or an equivalent cash amount at the Company's discretion. RSUs vest at the end of a three-year period. Holders of RSUs have the option of converting to an equivalent number of DSUs 60 days prior to vesting. During the year ended October 31, 2008, 126,952 RSUs were granted (2007 – 63,762). The Company recorded compensation costs related to outstanding RSUs of nil for the year ended October 31, 2008 (2007 – \$1.1 million).

### c) Performance Share Units

Under the Company's PSU Plan, the Company provides each designated executive an annual grant of PSUs as part of their compensation. The performance objectives under the plan are designed to further align the interest of the designated executive with those of shareholders by linking the vesting of awards to EBITDA over the three-year performance period. The number of PSUs that ultimately vest will vary based on the extent to which actual EBITDA matches budgeted EBITDA for the three-year period. Each PSU represents one notional common share that entitles the participant to a payment of one common share of the Company, purchased on the open market, or an equivalent cash amount at the Company's discretion. PSUs vest at the end of a three-year period. The final value of the PSUs will be based on the value of the Company's stock at the end of the three-year period and the number of PSUs that ultimately vest. Vesting of PSUs at the end of the three-year period will be based on total EBITDA

and whether the participating executive remains employed by the Company at the end of the three-year vesting period. Holders of PSUs have the option of converting to an equivalent number of DSUs 60 days prior to vesting. As at October 31, 2008, 380,863 PSUs were granted to the designated executives (2007 – 191,287). The Company recorded compensation costs related to outstanding PSUs of \$0.2 million for the year ended October 31, 2008 (2007 – \$7.1 million).

### d) Management Stock Option Plan

During fiscal 2008, the Management Stock Option Plan (the "Stock Option Plan") was reactivated after being inactive since fiscal 2004. At the shareholder meeting held on March 12, 2008 certain amendments were made to the Stock Option Plan. Under the amendments, the maximum number of Common Shares that may be issued under Options issued pursuant to the Stock Option Plan has increased from approximately 3.7 million Common Shares to approximately 10.2 million Common Shares. Once the 0.7 million Common Shares that can potentially be issued under currently granted and contingently granted Options are deducted, approximately 9.5 million Common Shares have been reserved for subsequent Option Grants. Options previously granted under the Stock Option Plan were approved by the Board of Directors.

Options granted prior to October 31, 2007 are fully vested, the last of which expires before August 14, 2013. Options granted subsequent to October 31, 2007 contingently vest after July 31, 2010 and expire on July 31, 2015.

The expense related to stock options is recognized over the vesting period based on the fair value of options determined by the Black-Scholes option pricing model with the following assumptions: risk-free rate 3.75%, dividend yield 0%, a volatility factor of the expected market price of the Company's shares of 37%, and a weighted average expected option life of 5.5 years.

	Number of Options <sup>1</sup>	Weighted Average Exercise Price	Number of Options Exercisable <sup>1</sup>	Weighted Average Exercise Price
Outstanding July 31, 2006	88,424	\$ 84.45	81,353	\$ 90.42
Forfeited and expired	(8,097)	\$ 153.42		
Outstanding October 31, 2007	80,327	\$ 77.50	80,327	\$ 77.50
Options granted	634,412	\$ 12.12		
Forfeited and expired	(5,630)	\$ 140.49		
Exercised	(2,863)	\$ 7.06		
Outstanding October 31, 2008	706,246	\$ 18.55	71,834	\$ 74.99

<sup>1</sup> Number of options are not shown in thousands

Of the 706,246 options outstanding, 71,834 are exercisable stock options at October 31, 2008, 10.34% have an exercise price of \$6.50 or less; the remainder have an exercise price at, or greater than, \$31.00. At October 31, 2008, the Company's shares closed at \$7.65.

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### e) Employee Share Purchase Plan

The ESP Plan became effective July 1, 2008. Under the ESP Plan, employees have the option to purchase shares of the Company. The Company matches 50% of the plan participants' contribution and is responsible for all costs associated with the purchase of the shares. The funds are used to purchase common shares on the open market. The compensation costs of \$1.5 million are included in operating, general and administrative expenses.

### 16. Employee Future Benefits

On July 1, 2008, the Company and the Grain Services Union ("GSU") finalized the settlement of the dispute surrounding the Saskatchewan Wheat Pool/Grain Services Union Pension Plan ("the Plan").

The Plan was originally established to provide defined benefits on the basis of contributions negotiated between the Company and the GSU. Since the cost was intended to be limited to the negotiated rates of contribution, the Company had, prior to July 1, 2008, accounted for this Plan as a defined contribution plan.

Since October 2007, by agreement with the Office of the Superintendent of Financial Institutions ("OSFI"), the Company has been remitting an amount equal to its disputed additional quarterly contributions to a separate security arrangement, which amounts were included in "cash in trust" on the Company's consolidated balance sheet pending resolution of the dispute.

In order to settle the dispute the following key terms were finalized simultaneously on July 1, 2008:

- Viterra became responsible for paying \$16.6 million into the Plan from the separate security arrangement. However, this amount and all future solvency deficiency payments are segregated in a reverting trust (secondary account) within the Plan so that any amounts paid in, but not required on ultimate windup would be refunded to the Company.
- Active members stop accruing pensionable service under the Plan and move to a defined contribution plan. However, benefits that were earned in the Plan will stay with the Plan and will be paid out upon the employee's retirement in the normal course.
- Viterra accepts full responsibility for all benefits accrued under the Plan and is responsible for making all solvency deficiency payments.
- Viterra becomes sole administrator of the Plan and acquires sole discretion to windup the Plan.

The financial statement impact of the above is that effective July 1, 2008:

- The previous \$20 million provision accrued regarding the potential liability to dissolve the dispute has been reversed.

- The initial \$16.6 million obligation for payment into the Plan is expensed as a cost of resolving the dispute because at the July 1, 2008 date of dispute settlement, the Company is not entitled to any funds contributed to the Plan. The \$16.6 million expense consists of two components:
  - \$7.1 million represents the deficiency of the Plan prior to amounts from the secondary account.
  - \$9.5 million represents the amount that is subject to the valuation allowance as described in the tables below.
- The amendments to the Plan text were substantial and pervasive. Effective July 1, 2008, Viterra became at risk for the actuarial and investment risk of the Plan. Therefore, at this date, the Plan is effectively a new defined benefit plan and is required to be accounted for as such.

	12 Months Ended October 31, 2008	15 Months Ended October 31, 2007
Impact of dispute settlement surrounding the GSU Pension Plan:		
Provision for pension settlement	\$ —	\$ (5,000)
Reversal of provision for pension settlement	20,000	—
Cost of dispute settlement	(16,644)	—
Recovery of (provision for) pension settlement	\$ 3,356	\$ (5,000)

It is the intention of the Company to settle its obligation to current pensioners of the Plan by purchasing annuities when, in the opinion of management, it is prudent to do so. The cost of settling this portion of the pension obligation will be reflected at the time the annuities are purchased.

### a) Defined Benefit Plans and Future Benefits

The Company, not including subsidiaries and affiliates, has the following defined benefit plans, which are based on years of service and final average salary: Hourly Employees' Retirement Plan ("Hourly"), Out of Scope Defined Benefit Pension Plan ("OSDB"), Supplementary Executive Retirement Plan ("SERP"), Grain Services Union ("GSU"), Thunder Bay Hourly Pension Plan ("TB Hourly"), Manitoba Pool Elevators Plan ("MPE"), and Combined Agricore United Pension Plan ("Combined"). The Company is on a contribution holiday for the Hourly, OSDB, TB Hourly, MPE and Combined plans due to income tax regulations relating to surpluses in these pension plans. These plans have bridged benefits that allow for early retirement. The SERP is unfunded and the employer makes contributions as the retirement benefits are paid. All of the plans are closed benefit plans. For one of the defined benefit plans, pension benefits may increase annually based on the performance of the fund.

The Company's retirement allowance benefit is a closed benefit plan. Certain groups of the Company's employees are

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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 years of service and salary in effect at retirement. The Company also provides other post-employment benefits, largely in respect of extended health and dental plans and life insurance, to eligible employees upon retirement.

Defined benefit plans with accrued benefit obligations in excess of plan assets have an aggregate accrued benefit obligation of \$229.3 million (2007 – \$20.1 million) and an aggregate fair value of plan assets of \$211.2 million (2007 – \$14.9 million).

Total consolidated company cash payments for employee future benefits for the year ended October 31, 2008 were

\$4.2 million (2007 – \$3.8 million), consisting of cash contributed to its funded pension plans and cash payments directly to beneficiaries for other future benefits.

The consolidated information presented for 2008 in the table below is based on actuarial valuation results as of December 31, 2005, December 31, 2006, December 31, 2007 and October 31, 2008, with extrapolations as required to October 31, 2008. The projected accrued benefit actuarial cost method pro-rated on service is used for this valuation. The assets are valued at market value on October 31, 2008 and October 31, 2007. The effective dates of the next required actuarial valuations include December 31, 2008, October 31, 2009 and December 31, 2009.

As at	Pension Benefit Plans		Other Future Benefits	
	2008	2007	2008	2007
<b>Plan Assets</b>				
Fair value, beginning of period	\$ 448,493	\$ 286,931	\$ –	\$ –
Fair value of assets added May 29, 2007	–	141,905	–	–
Fair value of assets added July 1, 2008	233,100	–	–	–
Fair value of secondary account at July 1, 2008	16,644	–	–	–
Actual return on plan assets	(139,085)	44,232	–	–
Employer contributions	3,488	979	742	2,793
Employees' contributions	302	387	–	–
Benefits paid	(33,938)	(25,941)	(742)	(2,793)
Fair value, end of period	529,004	448,493	–	–
<b>Accrued Benefit Obligation</b>				
Balance, beginning of period	315,083	198,534	12,220	4,614
Obligations added May 29, 2007	–	129,404	–	9,733
Obligations added July 1, 2008	240,220	–	–	–
Current service cost	1,820	2,299	362	274
Interest cost	22,248	16,615	699	532
Benefits paid	(33,938)	(25,941)	(742)	(2,793)
Actuarial gain	(67,942)	(5,828)	(1,608)	(140)
Balance, end of period	477,491	315,083	10,931	12,220
Funded status – plan surplus (deficit)	51,513	133,410	(10,931)	(12,220)
Unamortized transitional asset	(247)	–	–	–
Unamortized net actuarial (gain) loss	52,429	(56,902)	(3,164)	(1,774)
Accrued benefit asset (liability)	103,695	76,508	(14,095)	(13,994)
Valuation allowance	(55,939)	(53,002)	–	–
Consolidated accrued benefit asset (liability), net of valuation allowance	\$ 47,756	\$ 23,506	\$ (14,095)	\$ (13,994)

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

As at	Pension Benefit Plans		Other Future Benefits	
	2008	2007	2008	2007
Other long-term assets (Note 9)	\$ 51,564	\$ 28,054	\$ –	\$ –
Other long-term liabilities (Note 13)	(3,808)	(4,548)	(14,095)	(13,994)
Consolidated accrued benefit asset (liability), net of valuation allowance	\$ 47,756	\$ 23,506	\$ (14,095)	\$ (13,994)

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The percentage of plan assets by major category is:

As at	Pension Benefit Plans	
	2008	2007
Canadian Equities	25%	25%
Global Equities	26%	24%
Bonds	41%	26%
Other	8%	25%
	<b>100%</b>	<b>100%</b>

The significant weighted average actuarial assumptions are as follows:

As at	Pension Benefit Plans		Other Future Benefits	
	2008	2007	2008	2007
Discount rate (Accrued Benefit Obligation)	7.25%	5.70%	7.25%	5.70%
Discount rate (expense)	5.70%	5.80%	5.70%	5.80%
May 29, 2007 discount rate – AU	–	5.25%	–	5.50%
Expected long-term rate of return on plan assets	6.50%	6.40%	–	–
Rate of compensation increase	3.60%	3.90%	3.50%	3.75%
Average remaining service period – years	4 - 25	4 - 12	3 - 13	3 - 13
Assumed health care cost trend rates <sup>1</sup>	–	–	6 - 11%	7 - 13%

<sup>1</sup> The health care cost trend rate varies depending on the employee group being valued and will decline by 1.0% per year to an ultimate increase rate of 3.0%

A one percentage-point change in assumed health care cost trend rates would have the following effects for 2008:

	Increase	Decrease
Interest cost	\$ 20	\$ (19)
Accrued benefit obligation	\$ 235	\$ (211)

Net benefit expense (income) is comprised of:

	12 Months Ended October 31, 2008	15 Months Ended October 31, 2007	12 Months Ended October 31, 2008	15 Months Ended October 31, 2007
Costs arising in the period:				
Current service cost, net of employees' contributions	\$ 1,518	\$ 1,912	\$ 362	\$ 274
Interest cost	22,248	16,615	699	532
Actual return on plan assets	139,085	(44,232)	–	–
Actuarial loss (gain)	(67,969)	191	(1,608)	547
Valuation allowance provided against accrued benefit asset	(6,587)	5,216	–	–
Costs arising in the period	<b>88,295</b>	(20,298)	<b>(547)</b>	1,353
Difference between costs arising in the period and costs recognized in respect of:				
Return on plan assets	(172,705)	17,963	–	–
Actuarial loss (gain)	63,729	(1,949)	1,390	–
Transitional asset	(80)	–	–	–
Net benefit expense (income)	<b>\$ (20,761)</b>	\$ (4,284)	<b>\$ 843</b>	\$ 1,353

### b) Defined Contribution Plans

The Company, including subsidiaries and affiliates, contributes to several defined contribution plans including four multi-employer plans. The Company's total consolidated defined contribution plan expense for the year ended October 31, 2008, is \$8.8 million (2007 – \$7.2 million).

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### 17. Accumulated Other Comprehensive Income (Loss)

As at	2008	2007
Unrealized gains and losses on cash flow hedges	\$ (9,117)	\$ –
Unrealized gains and losses on available for sale assets	42	–
Unrealized effect of foreign currency translation of foreign operations	(691)	1,029
	<b>\$ (9,766)</b>	<b>\$ 1,029</b>

Unrealized losses on cash flow hedges of \$2.1 million are expected to be realized and recognized in net income within the next year.

### 18. Financing Expenses

	12 Months Ended October 31, 2008	15 Months Ended October 31, 2007
Interest expense on:		
Long-term debt	\$ 34,637	\$ 17,329
Short-term debt	24,988	24,227
Interest income	(18,755)	(3,485)
CWB carrying charge recovery	(7,555)	(4,689)
	<b>33,315</b>	<b>33,382</b>
Interest accretion	1,414	–
Amortization of deferred financing costs	3,056	2,796
	<b>\$ 37,785</b>	<b>\$ 36,178</b>

### 19. Related Party Transactions

The Company has transactions with related parties in the normal course of business measured at exchange amounts which are comparable to commercial rates and terms. Related parties include investees Prince Rupert Grain and The Puratone Corporation.

Total sales to related parties were \$16.6 million (2007 – \$7.8 million) and total purchases from related parties were \$11.6 million (2007 – \$6.9 million). As at October 31, 2008, accounts receivable from related parties totalled \$11.9 million (2007 – \$11.6 million).

### 20. Corporate Income Taxes

a) The provision for corporate income taxes consists of:

	12 Months Ended October 31, 2008	15 Months Ended October 31, 2007
Current	\$ 19,422	\$ 2,617
Future	70,280	57,709
	<b>\$ 89,702</b>	<b>\$ 60,326</b>

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

	12 Months Ended October 31, 2008	15 Months Ended October 31, 2007
Earnings before corporate income taxes	\$ 377,984	\$ 171,687
Effective federal and provincial tax rate	31.92%	34.3%
Pre-tax accounting income at statutory income tax rate	\$ 120,652	\$ 58,889
Change in effective tax rate on future income taxes	(21,314)	122
Recovery due to successful appeal of tax reassessment	(5,000)	–
Change in estimate of tax accruals	(4,715)	2,668
Permanent differences	(1,053)	(412)
Non-taxable portion of capital gain	(136)	(1,602)
Tax-paid equity earnings	1,879	446
Other	(611)	215
	<b>\$ 89,702</b>	<b>\$ 60,326</b>

## Notes to the Consolidated Financial Statements

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

As at	2008	2007
Future income tax assets:		
Losses available for carry forward	\$ 33,173	\$ 88,756
Refinancing and restructuring costs not currently deducted for tax	19,856	25,450
Accrued expenses not currently deductible for tax	39,586	41,776
Research and development costs not currently deducted for tax	1,798	4,398
Reclamation costs not currently deducted for tax	6,341	9,115
Other	2,731	1,479
	<b>103,485</b>	170,974
Valuation allowance <sup>1</sup>	(6,754)	(7,800)
Total future income tax assets	\$ 96,731	\$ 163,174

<sup>1</sup> The valuation allowance represents management's best estimate of the allowance necessary to reflect the future income tax assets related to losses available for carry forward at an amount that the Company considers is more likely than not to be realized. Included in the 2008 future tax asset of \$96.7 million is an adjustment of \$0.1 million made directly to retained earnings. Included in the 2007 future income tax asset of \$163.2 million is an adjustment of \$5.9 million made directly to retained earnings and \$21.0 million made directly to goodwill for a decrease in the future income tax assets' valuation allowance.

As at	2008	2007
Future income tax liabilities:		
Net book value in excess of undepreciated capital cost	\$ 180,742	\$ 196,880
Deferred charges currently deductible for tax	12,938	8,136
Income not currently taxable	2,546	540
Other	5,106	2,344
Total future income tax liabilities	\$ 201,332	\$ 207,900
Net future income tax asset (liability)	\$ (104,601)	\$ (44,726)

Classified in the consolidated financial statements as:

Current future income tax assets	\$ 59,202	\$ 70,116
Long-term future income tax assets	2,673	255
Long-term future income tax liabilities	(166,476)	(115,097)
	\$ (104,601)	\$ (44,726)

### d) The expiry dates associated with the losses available for carry forward are:

2009	\$ 39,586
2012	5,619
2013	56,935
2027	9,145
	<b>\$ 111,285<sup>2</sup></b>

<sup>2</sup> During the year the Company accelerated prior year capital cost allowance claims resulting in an \$81.9 million increase to losses available for carry forward

## 21. Gain on Disposal of Assets

On August 28, 2007, Intercontinental Exchange Inc. ("ICE") and WCE Holdings Inc., the parent company of Winnipeg Commodity Exchange Inc., announced the closing of ICE's acquisition of WCE Holdings Inc. Based on the purchase price for the transaction of \$77.59 per WCE Holdings Inc. common share, the Company recorded a gain on disposal of \$4.7 million. The remaining fiscal 2007 gain on disposal of assets of \$30.6 million was primarily associated with the sale of the Vancouver Port Terminal (Note 5).

## 22. Financial and Other Instruments and Hedging

### a) Fair Value

The following table presents the carrying amount and the fair value of the Company's financial instruments and non-financial derivatives. Amortized cost is calculated using the effective interest rate method. Fair value is based on quoted market prices. These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment.

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	October 31, 2008		Financial Instruments Category	November 1, 2007
	Carrying Value	Fair Value		Carrying Value
Cash	\$ 183,536	\$ 183,536	HFT	\$ 24,600
Cash in trust	–	–	HFT	16,710
Short-term investments	486,129	486,129	HFT-D	44,051
Accounts receivable				
Loans and receivables	703,773	703,773	L&R	438,939
Commodity contracts and exchange-traded derivatives	70,057	70,057	HFT	28,719
	773,830	773,830		467,658
Investments:				
Available for sale at fair value	62	62	AFS	258
Available for sale at cost	7,359	7,359	AFS	7,815
Non-financial instrument	224		N/A	11,379
	7,645			19,452
Other long-term assets:				
Long-term receivable	2,075	2,075	L&R	7,319
Non-financial instrument	67,163		N/A	47,155
	69,238			54,474
Bank indebtedness	655	655	OFL	4,501
Short-term borrowings	17,769	17,769	OFL	352,527
Accounts payable and accrued liabilities				
Other liabilities	846,765	846,765	OFL	711,412
Commodity contracts and exchange-traded derivatives	81,831	81,831	HFT	12,533
	928,596	928,596		723,945
Long-term debt, including current portion	610,088	595,257	OFL	304,316
Other long-term liabilities				
Commodity contracts and exchange-traded derivatives	10,121	10,121	HFT	–
Classified as other liabilities	9,638	9,638	OFL	12,758
Non-financial instrument	44,424		N/A	47,497
	64,183			60,255

Financial instruments category/guide:	HFT	Held for trading
	HFT-D	Held for trading – designated
	L&R	Loans and receivables
	AFS	Available for sale
	OFL	Other financial liabilities
	N/A	Not applicable

Changes in fair value of commodity contracts and exchange-traded derivatives are included in cost of sales.

### b) Risks and Risk Management

The Company faces certain financial risks such as commodity price, foreign exchange, interest rate, credit and liquidity risk which can impact its financial performance. The Company is exposed to changes in commodity prices, foreign exchange rates 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.

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### i) Commodity Price Risk

The Company is exposed to commodity price movements within the market as part of its normal operations. The Company uses exchange-traded futures and options contracts to minimize the effects of changes in the prices of hedgeable 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. This is consistent with the Company's practice in the prior year. The Company manages the risk associated with inventory and open contracts on a combined basis. The Company's Risk Management Policy provides limits within which management may maintain inventory and certain long or short commodity positions. Based on the Company's October 31, 2008 closing positions, a \$10 per tonne change in commodity market prices and a \$2 per tonne change in basis levels would result in a \$0.4 million change to the Company's after tax earnings on unhedged positions. During the year, the Company entered into natural gas contracts to manage the risk associated with nitrogen fertilizer production. In relation to the natural gas contracts outstanding at October 31, 2008, a \$1 per gigajoule change in market prices would result in a \$1.0 million change to the Company's after tax earnings.

### ii) Foreign Exchange Risk

The Company is exposed to foreign exchange risk on financial commodity contracts which are denominated in U.S. dollars and on its investment in foreign subsidiaries. The Company 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. Certain areas of the Company not related to the handling and marketing of grain have discontinued hedge accounting and have thereby increased the potential for volatility in income on these previously hedged contracts. These contracts as well as the foreign currency forward and futures contracts in the remaining areas of the Company are marked-to-market and unrealized gains and losses are recognized in income in the period in which they occur. Due to the Company's risk management strategy, the Company's sensitivity in net earnings to changes in the U.S. dollar, is immaterial.

The Company also has immaterial exposures to currencies other than the U.S. dollar such as British pounds and euros.

As at	2008	2008	2007	2007
	Currency Sold	Currency Purchased	Currency Sold	Currency Purchased
Notional U.S. dollars	\$ 791,551	\$ (144,630)	\$ 622,395	\$ (136,050)
Notional euros	€ 23,959	€ (750)	€ 9,570	€ (578)
Notional pounds	£ —	£ —	£ 73	£ —
Canadian equivalent	\$ 882,526	\$ (158,048)	\$ 663,846	\$ (136,607)
Fair value	\$ 988,621	\$ (175,175)	\$ 600,905	\$ (129,300)
Unrealized gain	\$ 589	\$ 17,127	\$ 62,942	\$ —
Unrealized loss	\$ (106,684)	\$ —	\$ —	\$ (7,308)
Average foreign exchange rate	\$ 1.0822	\$ 1.0871	\$ 1.0503	\$ 0.9998

All unrealized gains and losses at October 31, 2008, are recognized in these financial statements in net earnings or other comprehensive income. In 2007, approximately \$42.8 million of the net unrealized gain of \$55.6 million was recognized in net earnings.

### iii) Interest Rate Risk

The Company manages interest rate risk and currency risk on borrowings by using a combination of cash instruments, forwards and a mixture of fixed and floating rates. The Company has entered into interest rate swaps to manage variable interest rates associated with a portion of the Company's debt portfolio. The Company uses hedge accounting for interest rate swaps used to hedge long-term debt. Hedge accounting treatment results in interest expense on the related debt being reflected at hedged rates rather than at variable interest rates. The effective portion of changes in the fair value of the swap is recognized in other comprehensive income while any ineffective portion of changes in the fair value of the swap is recognized immediately in financing expenses. Gains and losses are recognized in financing expenses in the same period as the hedged item is settled. Based on the Company's current credit ratings and interest rate swaps, the hedged fixed rate of interest on the credit facility is approximately 5.9% on Canadian dollar borrowings and approximately 6.1% on U.S. dollar borrowings. The effect of a 25 basis point change on the \$225 million Canadian dollar interest rate swap would result in a \$1.5 million change to the Company's after tax other comprehensive income, and no change to after tax net earnings. The effect of a 25 basis point change on the \$75 million U.S. dollar interest rate swap would result in a \$0.6 million change to the Company's after tax other comprehensive income, and no change to after tax net

## Notes to the Consolidated Financial Statements

*in thousands of Canadian dollars, except as noted*

earnings. Based on the October 31, 2008 closing borrowing, the Company is exposed to interest rate risk on short-term variable rate borrowings. The Company's short-term borrowings fluctuate with seasonal working capital requirements. A 1% increase in short-term variable rates based on October 31, 2008 borrowings would decrease after tax earnings by \$0.1 million per annum.

The fair value of the secured notes fluctuates as market interest rates change. However, the secured notes have been designated as other financial liabilities and therefore, changes in their fair value have no impact on net earnings.

### iv) Credit Risk

The Company is exposed to credit risk in respect of trade receivables which the Company manages through ongoing credit reviews of all significant contracts and analysis of payment and loss history. The absence of significant financial concentration of such receivables limits its exposure to credit risk. Credit risk exposure for the Agri-products and Livestock Feed and Services segments are also limited through an arrangement with a Canadian Schedule I chartered bank which provides for limited recourse to the Company for credit losses on accounts receivable under Viterra Financial and Unifeed Financial.

The Company is also exposed to credit risk in the event of non-performance of its counterparties on its derivative contracts. However, in the case of over-the-counter derivative contracts, the Company only contracts with pre-authorized counterparties where agreements are in place and the Company monitors the credit ratings of its counterparties on an ongoing basis. Exchange traded futures contracts used to hedge future revenues in the Company's grain business are not subject to any significant credit risk as the changes in contract positions are settled daily through a recognized exchange.

The allowance for bad debts as at October 31, 2008 was \$19.9 million (2007 – \$16.9 million). All bad debt write-offs are charged to operating, general and administrative expenses. The age of trade accounts receivable is:

Under 30 days	\$ 488,144
31 to 60 days	19,957
61 to 90 days	2,844
Over 90 days	2,485
	<hr/>
	\$ 513,430

The Company's maximum credit exposure at the balance sheet date consists primarily of the carrying amounts of non-derivative financial assets such as accounts receivable and long-term receivables as well as the fair value of commodity contracts, exchange-traded derivatives, and other non-trade assets included in accounts receivable.

Short-term investments are held with one Schedule I and one Schedule II Canadian commercial bank and have maturities of less than three months.

### v) Liquidity Risk

The Company actively maintains credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements. Please refer to Section 9.5 of the MD&A for contractual maturities of financial liabilities at October 31, 2008. Management believes that future cash flows from operations and availability under existing banking arrangements will be adequate to support these financial liabilities.

### c) Collateral

The Company has charged substantially all assets of the Company and certain of its subsidiaries as security for borrowings (Notes 11 and 12).

### d) Foreign Exchange Gains and Losses

Foreign exchange gains of \$12.7 million are included in sales and other operating revenues for the year ended October 31, 2008 (2007 – \$2.0 million loss) and foreign exchange losses of \$12.4 million are included in cost of sales for the year ended October 31, 2008 (2007 – \$4.0 million gain).

## Notes to the Consolidated Financial Statements

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### 23. Interests in Joint Ventures

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

As at	2008	2007
Current assets	\$ 28,124	\$ 23,318
Long-term assets	\$ 17,491	\$ 18,291
Current liabilities	\$ 15,112	\$ 15,916
Long-term liabilities	\$ 4,275	\$ 2,257
	<b>12 Months Ended October 31, 2008</b>	<b>15 Months Ended October 31, 2007</b>
Revenue	\$ 62,546	\$ 188,417
Expenses	\$ 52,225	\$ 172,928
Net earnings	\$ 10,321	\$ 15,489
Cash from operating activities	\$ 6,278	\$ 5,537
Cash used in financing activities	\$ (3,986)	\$ (39,324)
Cash (used in) from investing activities	\$ (1,741)	\$ 8,198

### 24. Segmented Information

The Company has not provided revenues from external customers by geographic location as it is not practicable to do so. Total sales and revenue from services include export sales of \$2.6 billion (2007 – \$1.3 billion).

The segments' accounting policies are consistent with those described in Accounting Policies (Note 2). The Company accounts for inter-segment sales at current market prices under normal trade terms.

	12 Months Ended October 31, 2008	15 Months Ended October 31, 2007
<b>Sales and other operating revenues</b>		
Grain Handling and Marketing	\$ 4,299,496	\$ 2,537,106
Agri-products	1,686,278	983,449
Agri-food Processing	198,312	203,209
Livestock Feed and Services	625,947	181,959
Financial Products	13,548	5,579
	<b>6,823,581</b>	<b>3,911,302</b>
Less: Inter-segment sales	46,015	35,486
	<b>\$ 6,777,566</b>	<b>\$ 3,875,816</b>

	12 Months Ended October 31, 2008	15 Months Ended October 31, 2007
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<b>Inter-segment sales</b>		
Grain Handling and Marketing	\$ 45,015	\$ 35,772
Agri-products	537	–
Agri-food Processing	463	(286)
	<b>\$ 46,015</b>	<b>\$ 35,486</b>

<b>Gross profit and net revenues from services</b>		
Grain Handling and Marketing	\$ 473,657	\$ 356,416
Agri-products	437,613	225,206
Agri-food Processing	35,948	30,189
Livestock Feed and Services	66,065	25,788
Financial Products	13,548	6,227
	<b>\$ 1,026,831</b>	<b>\$ 643,826</b>

<b>Operating, general and administrative expenses</b>		
Grain Handling and Marketing	\$ (174,360)	\$ (174,192)
Agri-products	(160,750)	(105,445)
Agri-food Processing	(6,919)	(8,867)
Livestock Feed and Services	(72,151)	(20,329)
Financial Products	(4,702)	(2,332)
Corporate	(75,345)	(64,663)
	<b>\$ (494,227)</b>	<b>\$ (375,828)</b>

<b>EBITDA <sup>1</sup></b>		
Grain Handling and Marketing	\$ 299,297	\$ 182,224
Agri-products	276,863	119,761
Agri-food Processing	29,029	21,322
Livestock Feed and Services	(6,086)	5,459
Financial Products	8,846	3,895
Corporate	(75,345)	(64,663)
	<b>\$ 532,604</b>	<b>\$ 267,998</b>

<sup>1</sup> EBITDA – Earnings before interest, taxes, depreciation and amortization, gain on disposal of assets, integration expenses and recovery of (provision for) pension settlement

<b>Amortization</b>		
Grain Handling and Marketing	\$ (41,531)	\$ (30,259)
Agri-products	(48,217)	(28,341)
Agri-food Processing	(5,842)	(7,727)
Livestock Feed and Services	(10,239)	(3,889)
Financial Products	(420)	(175)
Corporate	(583)	–
	<b>\$ (106,832)</b>	<b>\$ (70,391)</b>

## Notes to the Consolidated Financial Statements

in thousands of Canadian dollars, except as noted

	12 Months Ended October 31, 2008	15 Months Ended October 31, 2007
<b>EBIT<sup>2</sup></b>		
Grain Handling and Marketing	\$ 257,766	\$ 151,965
Agri-products	228,646	91,420
Agri-food Processing	23,187	13,595
Livestock Feed and Services	(16,325)	1,570
Financial Products	8,426	3,720
Corporate	(75,928)	(64,663)
	<b>\$ 425,772</b>	<b>\$ 197,607</b>

<sup>2</sup> EBIT – earnings before interest, taxes, gain on disposal of assets, integration expenses and recovery of (provision for) pension settlement

### Capital expenditures

Grain Handling and Marketing	\$ 22,153	\$ 106,539
Agri-products	21,705	8,206
Agri-food Processing	5,408	12,510
Livestock Feed and Services	4,155	–
Financial Products	35	–
Corporate	2,127	–
	<b>\$ 55,583</b>	<b>\$ 127,255</b>

As at	2008	2007
<b>Assets</b>		
Grain Handling and Marketing <sup>3</sup>	\$ 1,592,159	\$ 1,486,636
Agri-products	1,118,768	953,649
Agri-food Processing	126,233	109,552
Livestock Feed and Services <sup>3</sup>	251,699	199,731
Financial Products	76,224	82,361
Corporate	823,409	210,166
	<b>\$ 3,988,492</b>	<b>\$ 3,042,095</b>

<sup>3</sup> Includes assets of foreign operations of \$139.0 million (2007 – \$59.8 million)

### Goodwill

Grain Handling and Marketing	\$ 35,821	\$ 35,821
Agri-products	187,036	187,036
Agri-food Processing	–	–
Livestock Feed and Services	10,909	7,531
Financial Products	66,355	66,355
	<b>\$ 300,121</b>	<b>\$ 296,743</b>

### Intangible assets

Grain Handling and Marketing	\$ 254	\$ –
Agri-products	17,363	17,058
Agri-food Processing	–	–
Livestock Feed and Services <sup>4</sup>	2,573	2,552
Financial Products	245	665
Corporate	1,698	–
	<b>\$ 22,133</b>	<b>\$ 20,275</b>

<sup>4</sup> Includes intangible assets of foreign operations of \$2.6 million (2007 – \$2.6 million)

## 25. Commitments, Contingencies and Guarantees

### a) Lease Commitments

The Company, including its subsidiaries and its proportionate share of joint ventures, has operating leases relating primarily to rail cars, buildings and equipment. Future minimum lease payments having initial or remaining lease terms in excess of one year at October 31, 2008 are as follows:

2009	\$ 15,611
2010	10,410
2011	7,352
2012	5,515
2013	3,357
Thereafter	4,784
	<b>\$ 47,029</b>

### b) Letters of Credit

At October 31, 2008, the Company had outstanding letters of credit and similar instruments of \$68.2 million related to operating an agri-business (October 31, 2007 – \$81.8 million). The terms range in duration and expire at various dates from November 30, 2008 to September 30, 2009. The amounts vary depending on underlying business activity or the specific agreements in place with the third parties. These instruments effectively reduce the amount of cash that can be drawn on the revolving credit facility.

### c) Loan Loss Provision

Under the terms of an agreement, a financial institution provided credit for the purchase of crop inputs to certain customers of the Company in the Agri-products segment. The agreement was terminated on January 31, 2008 on payment of a termination fee and the acquired amounts were sold to a Canadian Schedule I chartered bank in February 2008.

### d) Indemnification of Accounts Receivable

**Viterra Financial™** – the Company has a rolling five-year agreement with a Canadian Schedule I chartered bank to provide credit for qualifying agricultural producers to purchase crop inputs. The agreement may be terminated at an earlier date by mutual consent or by either party upon one year's written notice. Viterra indemnifies the bank for 50% of future losses to a maximum of 5% of the aggregate qualified portfolio balance. The Company's aggregate indemnity will vary at any given time with the size of the underlying portfolio. As at October 31, 2008, the Company's obligation for past

## Notes to the Consolidated Financial Statements

*in thousands of Canadian dollars, except as noted*

and future losses is current with the bank in accordance with the Agency Agreement.

**Unifeed Financial®** – the Company has a rolling five-year agreement with a Canadian Schedule I chartered bank to provide loans to customers to purchase feeder cattle and feeder hogs, as well as related feed inputs, with terms that do not require payment until the livestock is sold. The agreement may be terminated at an earlier date by mutual consent or by either party upon one year's written notice. Viterra indemnifies the bank for credit losses based on the first 20% to 33% of new credit issued on an individual account, dependent on the account's underlying credit rating, with losses in excess of these amounts shared on an equal basis with the bank up to 5% on the aggregate qualified portfolio balance. The Company's aggregate indemnity will vary at any given time with the credit rating of the underlying accounts and the aggregate credit outstanding. As at October 31, 2008, the Company's obligation for past and future losses is current with the bank in accordance with the Agency Agreement.

### e) Loan Guarantees

The Company is contingently liable under several guarantees given to third-party lenders who have provided long-term financing to certain independent hog producers. As at October 31, 2008, the current outstanding balance of these guarantees is \$2.8 million. These guarantees diminish as the underlying loans are repaid and expire in 2014.

The Company is contingently liable to a finance company for a portion of losses incurred related to potential producer delinquencies associated with equipment leases and credit provided for the purchase of fertilizer bins. Given historically low delinquent rates in conjunction with collateral values of assets, the Company has accrued no obligation.

### f) Director and Officer Indemnification

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers as well as those of certain affiliated companies.

### g) Other Indemnification Provisions

From time to time, the Company enters into agreements in the normal course of operations and in connection with business or asset acquisitions or dispositions. By their nature,

these agreements may provide for indemnification of counterparties. The varying nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could incur. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

### h) Other Contingencies

As at October 31, 2008, there are claims against the Company in varying amounts for which a provision in the financial statements is not considered necessary. The occurrence of the confirming future event is not determinable or it is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims. Management believes that any such amounts would not have a material impact on the business or financial position of the Company.

## 26. Management of Capital

The Company's objective when managing capital is to strive for a long-term manageable level of debt to total capital. Due to the seasonal nature of the Company's short-term borrowing requirements, the Company's objective is to manage the level of debt to total capital between 30% to 40%.

Debt to total capital is defined as total interest bearing debt divided by total interest bearing debt plus the book value of total shareholders' equity. Interest bearing debt is the aggregate of bank indebtedness, short-term borrowings, long-term debt due within one year and long-term debt.

As at	2008	2007
Bank indebtedness	\$ 655	\$ 4,501
Short-term borrowings	17,769	352,527
Total short-term debt	\$ 18,424	\$ 357,028
Long-term debt due within one year	\$ 14,703	\$ 3,736
Long-term debt	595,385	307,413
Total long-term debt	\$ 610,088	\$ 311,149
Total interest bearing debt	\$ 628,512	\$ 668,177
Shareholders' equity	\$ 2,200,725	\$ 1,474,621
Total capital	\$ 2,829,237	\$ 2,142,798

Debt to total capital:

As at the balance sheet date	22:78	31:69
Four quarter average	30:70	34:66

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*in thousands of Canadian dollars, except as noted*

### 27. Future Accounting Changes

#### a) Inventories

In June 2007, the CICA issued Section 3031, Inventories, replacing Section 3030, Inventories. The new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning November 1, 2008. It provides more guidance on the measurement and disclosure requirements for inventories. The adoption is not expected to have a material impact on the Company's consolidated financial statements.

#### b) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning November 1, 2008. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption is not expected to have a material impact on the Company's consolidated financial statements.

#### c) International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies would be required to converge with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. In February 2008, the Accounting Standards Board confirmed the effective due date of the initial adoption of IFRS. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined.

### 28. Comparative Amounts

Prior period amounts have been restated as a result of an accounting policy change as disclosed in Note 2p)ii).