## Consolidated Balance Sheets

| | (in thousands) as at January 31 1999 (unaudited) | 1998 (unaudited) (restated) |
|---|---|---|
| **Current Assets** | | |
| Short-term investments | $ **5,481** | $ 7,132 |
| Notes receivable | **3,021** | 4,446 |
| Accounts receivable | **242,218** | 195,381 |
| Inventories | **405,473** | 412,470 |
| Prepaid expenses | **12,527** | 10,914 |
| | **668,720** | 630,343 |
| **Investments** | **82,621** | 56,965 |
| **Capital Assets** | **794,978** | 529,959 |
| **Other Long-Term Assets** | **134,039** | 47,529 |
| | $ **1,680,358** | $ 1,264,796 |
| **Current Liabilities** | | |
| Bank indebtedness | $ **24,107** | $ 70,041 |
| Short-term borrowings | **259,772** | 73,041 |
| Members' demand loans | **80,569** | 88,046 |
| Accounts payable | **218,005** | 258,436 |
| Long-term debt due within one year | **9,404** | 11,033 |
| | **591,857** | 500,597 |
| **Long-Term Debt** | **371,841** | 198,950 |
| **Other Long-Term Liabilities** | **49,833** | 39,230 |
| **Non-Controlling Interest** | **5,273** | 4,268 |
| | **1,018,804** | 743,045 |
| **Shareholders' Equity** | | |
| Share capital | **457,736** | 297,733 |
| Retained earnings | **203,818** | 224,018 |
| | **661,554** | 521,751 |
| | $ **1,680,358** | $ 1,264,796 |

## Notes to the Consolidated Financial Statements

**1. Significant Accounting Policies**

The Company's accounting policies are in accordance with accounting principles generally accepted in Canada. The consolidated financial statements include the accounts of Saskatchewan Wheat Pool and its affiliated companies.

**Restatements**

The Consolidated Statements of Cash Flow have been restated to reflect new recommendations required by the Canadian Institute of Chartered Accountants. Equity earnings of significantly influenced companies are reflected within Segment Earnings (Losses) on a pre-tax basis. These equity earnings are reflected net of tax within the Consolidated Statements of Earnings and Retained Earnings.

**2. Earnings Per Share**

Earnings per share are calculated using 37,424,790 Class "B" non-voting shares (1998 - 29,578,489) which is the weighted average number issued and outstanding during the period. Fully diluted earnings per share are not materially different.

**3. Provision for Restructuring**

This provision relates to the recently announced restructuring of CSP Foods' eastern manufacturing and warehousing facilities.

## Consolidated Statements of Earnings and Retained Earnings

| | (in thousands) Three months ended January 31 1999 (unaudited) | 1998 (unaudited) (restated) | (in thousands) Six months ended January 31 1999 (unaudited) | 1998 (unaudited) (restated) |
|---|---|---|---|---|
| **Sales & Other Operating Revenues** | $ **944,961** | $ 988,239 | $ **1,769,441** | $ 2,031,020 |
| **Cost of Sales & Expenses** | | | | |
| Cost of sales & operating expenses | **895,764** | 932,571 | **1,672,431** | 1,909,938 |
| Selling & administrative expenses | **29,321** | 27,746 | **59,948** | 54,188 |
| Depreciation & amortization | **13,129** | 10,601 | **26,691** | 24,131 |
| Interest expense | **5,794** | 5,204 | **12,771** | 9,734 |
| Securitization expense | **1,977** | 1,691 | **5,473** | 4,560 |
| | **945,985** | 977,813 | **1,777,314** | 2,002,551 |
| Provision for Restructuring (Note 3) | **(4,500)** | - | **(4,500)** | - |
| **Earnings (Loss) from Operations** | **(5,524)** | 10,426 | **(12,373)** | 28,469 |
| Equity Earnings of Significantly Influenced Companies | **1,565** | 391 | **2,018** | 551 |
| Non-Controlling Interest | **(27)** | (172) | **20** | (317) |
| **Earnings (Loss) Before Corporate Taxes** | **(3,986)** | 10,645 | **(10,335)** | 28,703 |
| (Recovery of) Provision for Corporate Taxes | **(3,261)** | 3,468 | **(5,759)** | 11,763 |
| **Net Earnings (Loss)** | **(725)** | 7,177 | **(4,576)** | 16,940 |
| **Retained Earnings, Beginning of Period** | **204,543** | 216,841 | **208,394** | 207,078 |
| **Retained Earnings, End of Period** | $ **203,818** | $ 224,018 | $ **203,818** | $ 224,018 |
| **Earnings (Loss) per Share** (Note 2) | $ **(0.02)** | $ 0.24 | $ **(0.12)** | $ 0.57 |

## Sales and Operating Revenues by Segment

| | (in thousands) Three months ended January 31 1999 (unaudited) | 1998 (unaudited) (restated) | (in thousands) Six months ended January 31 1999 (unaudited) | 1998 (unaudited) (restated) |
|---|---|---|---|---|
| Grain Handling & Marketing | $ **657,597** | $ 704,902 | $ **1,210,261** | $ 1,495,269 |
| Farm Supplies | **88,001** | 82,228 | **178,966** | 156,737 |
| Agri-Food Processing | **171,758** | 176,544 | **343,915** | 339,076 |
| Livestock Marketing | **36,133** | 32,673 | **57,523** | 58,035 |
| Publishing and Other | **3,455** | 3,841 | **6,729** | 6,947 |
| Intersegment Sales | **(11,983)** | (11,949) | **(27,953)** | (25,044) |
| | $ **944,961** | $ 988,239 | $ **1,769,441** | $ 2,031,020 |

## Earnings From Operations

| | (in thousands) Three months ended January 31 1999 (unaudited) | 1998 (unaudited) (restated) | (in thousands) Six months ended January 31 1999 (unaudited) | 1998 (unaudited) (restated) |
|---|---|---|---|---|
| Grain Handling & Marketing | $ **(387)** | $ 9,401 | $ **3,926** | $ 34,987 |
| Farm Supplies | **5,407** | 7,141 | **3,179** | 7,417 |
| Agri-Food Processing - before provision for restructuring | **10,447** | 6,579 | **17,407** | 10,260 |
| - provision for restructuring | **(4,500)** | - | **(4,500)** | - |
| Livestock Marketing | **85** | 1,751 | **618** | 3,158 |
| Publishing and Other | **464** | 456 | **773** | 1,268 |
| | **11,516** | 25,328 | **21,403** | 57,090 |
| Corporate Expenses | **(7,064)** | (7,389) | **(12,356)** | (13,438) |
| Interest Expense | **(5,794)** | (5,191) | **(12,771)** | (9,734) |
| Securitization Expenses | **(1,977)** | (1,691) | **(5,473)** | (4,560) |
| Tax Provision on Equity Earnings | **(640)** | (240) | **(1,158)** | (338) |
| Non-Controlling Interest | **(27)** | (172) | **20** | (317) |
| | $ **(3,986)** | $ 10,645 | $ **(10,335)** | $ (28,703) |

## Consolidated Statements of Cash Flow

| | (in thousands) Six months ended January 31 1999 (unaudited) | 1998 (unaudited) (restated) |
|---|---|---|
| **Cash From (Used In) Operating Activities** | | |
| Net Earnings (Loss) | $ **(4,576)** | $ 16,940 |
| Add/(deduct) Items Not Involving Cash | | |
| Depreciation & amortization | **26,691** | 24,131 |
| Provision for restructuring | **2,400** | - |
| Deferred taxes (recovery) | **(2,859)** | 3,983 |
| Equity earnings of significantly influenced companies | **(2,018)** | (551) |
| Non-controlling interest | **(20)** | 317 |
| Cash Flow From Operations | **19,618** | 44,820 |
| Changes in Non-Cash Working Capital Items | | |
| Accounts receivable | **62,914** | 150,793 |
| Inventories | **(75,958)** | (84,639) |
| Accounts payable | **(71,559)** | (93,969) |
| Other | **1,140** | (1,245) |
| **Net Cash (used in) From Operating Activities** | **(63,845)** | 15,760 |
| **Cash From (Used In) Financing Activities** | | |
| Proceeds from Short-Term Borrowings | **100,571** | 47,543 |
| Repayment of Members' Demand Loans | **(3,471)** | (2,214) |
| Dividends Paid | **(14,969)** | (11,829) |
| Increase in Other Long-Term Liabilities | **1,559** | (126) |
| Proceeds from Long-Term Debt | **153,117** | (4,177) |
| Increase in Non-Controlling Interest | **1,051** | 2,271 |
| Share Capital Issued | **49** | 154 |
| **Cash From Financing Activities** | **237,907** | 31,622 |
| **Cash From (Used In) Investing Activities** | | |
| Increase in Capital Assets | **(170,397)** | (89,217) |
| Business Acquisitions | **(14,847)** | (20,271) |
| Increase in Investments | **(3,721)** | (14,774) |
| Increase in Other Long-Term Assets | **(10,598)** | (6,807) |
| **Cash Used in Investing Activities** | **(199,563)** | (131,069) |
| **Decrease in Cash and Cash Equivalents*** | **(25,501)** | (83,687) |
| **Cash and Cash Equivalents, Beginning of Period*** | **9,896** | 25,224 |
| **Cash and Cash Equivalents, End of Period*** | $ **(15,605)** | $ (58,463) |
| **Cash Flow per Share** | $ **0.52** | $ 1.51 |

* Cash and cash equivalents are comprised of short-term investments, notes receivable and bank indebtedness.

## To Our Shareholders

### Summary of Results

For the three months ended January 31,1999, Saskatchewan Wheat Pool recorded net earnings of $1.8 million or $0.05 per share prior to a restructuring charge at CSP Foods of $4.5 million or $2.5 million after tax. After the restructuring charge, the Pool recorded a net loss of $0.7 million or $0.02 per share compared to net earnings of $7.2 million or $0.24 per share one year earlier. Prior to the restructuring charge, earnings before interest, taxes, depreciation and amortization (EBITDA) were $17.9 million and earnings before interest and taxes (EBIT) were $4.8 million. These compare to $26.2 million and $15.6 million, respectively, for the previous year. Cash from operations for the current three month period was $12.2 million or $0.32 per share compared to $21.0 million or $0.71 per share in 1998.

The Pool reported a net loss for the six months ended January 31, 1999 of $4.6 million or $0.12 per share compared to net earnings of $16.9 million or $0.57 per share in 1998. Prior to the CSP Foods' restructuring charge, EBITDA was $31.6 million while EBIT was $4.9 million compared to $62.3 million and $38.2 million, respectively, for last year.

**Grain Handling and Marketing**

Sales for this segment for the first six months of fiscal 1999 were $1.2 billion, down from $1.5 billion a year earlier, as the slow movement of Canadian Wheat Board (CWB) grain which characterized the last quarter continued through this three month period.

Grain handling levels for the Company have been severely reduced in the primary elevator system and at port terminals. At January 31, 1999 primary elevator volumes were down 25% and terminal elevator volumes were lower by 35% compared to one year ago. Volumes of CWB grain handled by the Pool's primary elevator system were down 38% from 1998. Handling at both the Pool's own and jointly-owned port terminals were all substantially lower than one year ago. Prince Rupert Grain, which experienced a 67% reduction from last year, will close in March and has not specified a re-opening date.

The CWB's export program for wheat, durum and barley is forecast to be at a 24-year low of 14.5 million tonnes, down approximately 30% from last year. This is largely due to international grain market conditions. A record world wheat crop in 1997 and a near-record crop the subsequent year have resulted in large supplies. In the EU and the US, two large grain producers and exporters, over-production has been encouraged through price protection and income support mechanisms for producers. On the demand side, the purchasing power of some traditional buyers has been reduced because of the Asian financial crisis while others have increased their own domestic production.

Operating earnings for this segment for the first half of fiscal 1999 were $3.9 million, down from $35.0 million a year earlier. Primary elevator operations posted a loss for the period as a consequence of reduced CWB grain volumes, chiefly wheat, which resulted in lower handling, storage and interest revenues. Similarly, lower port terminal handlings reduced that unit's earnings due to significant decreases in elevation, cleaning and drying revenues.

### Six Month Handling Volumes to January 31

| | (millions of tonnes) | |
|---|---|---|
| | 1999 | 1998 |
| Primary Elevator System | 4.27 | 5.69 |
| Terminal Operations | | |
| Vancouver - SWP | 1.04 | 1.41 |
| Thunder Bay - SWP | 1.36 | 1.95 |
| Share of Affiliates | 0.51 | 1.12 |
| | 2.91 | 4.48 |

Although there have been some positive signs that world wheat markets may improve over the near term, generally low prices and sluggish demand are likely to keep exports close to forecast levels. With grain handling volumes anticipated to finish well below last year, substantially lower operating earnings can be expected for this segment.

### Farm Supplies

Sales for this segment for the first six months of fiscal 1999 were $179.0 million, 14% ahead of 1998. This increase was due to increased sales for Western Co-operative Fertilizers Limited (WCFL) and CanGro Processors Ltd. (CanGro), partly offset by lower sales for the Pool's retail farm supplies operations.

Operating earnings for the six month period were $3.2 million compared to $7.4 million a year ago, with CanGro and the Company's own farm supplies business accounting for nearly all of the decrease.

Although CanGro has shown good sales growth, competitive market conditions in the feed business have reduced earnings. Lower results from the Pool's farm input business were chiefly due to last year's acquisition of farm supply outlets. While ongoing costs are being incurred for these outlets, the majority of their sales will not occur until the spring.

Retail sales for farm inputs, while down slightly for the first six months, still reached $100 million. The Company believes that the outlook is positive for this business as it prepares to enter its typically heaviest sales period. First, soil moisture conditions are generally satisfactory across the prairies. As well, significant acreage allocation to oilseeds is expected again this year. Finally, with recent acquisitions and Project Horizon, the Pool has a larger and improved farm supply network through which to offer its products and services.

The Company expects good returns for WCFL in fiscal 1999, comparable to last year.

### Agri-Food Processing

Sales for this segment for the first six months of fiscal 1999 were $343.9 million, $4.8 million ahead of 1998. Increased sales from last year's purchase of the remaining 66% interest of Can-Oat Group Inc. (Can-Oat) were partly offset by lower sales revenues at CanAmera Foods which, despite the decrease, recorded improved crushing volumes.

For the first half of this year, Agri-Food Processing recorded operating earnings before the provision for restructuring of $17.4 million, 70% better than last year. Strong performances by CanAmera and Fletcher's Fine Foods Ltd. were primarily responsible.

Although the soybean crush for the second quarter of fiscal 1999 lagged behind the same quarter last year, six month crushing volumes at CanAmera were still 6% ahead of the previous year. Operating earnings for the first half of fiscal 1999 were well ahead of last year due to higher volumes, improved crush margins and increased returns from value-added business.

For the latter part of fiscal 1999, CanAmera expects pressure on margins as a result of two factors. Last fall, China purchased large quantities of canola seed from Canada while, at the same time, enforcing import duties on vegetable oils. As well, world vegetable oil prices have been negatively affected by North America's oversupply and excess crushing capacity, in part due to lower Asian demand. In addition, the abundant South American soybean crops currently being harvested and the recent currency devaluation in Brazil, a major exporter of soybeans, are both placing further downward pressure on prices.

Earnings from Fletcher's also showed solid gains over last year. In late February, the Pool's pork processing affiliate reported record earnings for its fourth quarter (ended December 26, 1998). Both the Prepared Foods and Fresh Pork Divisions recorded increases, demonstrating the benefits from Fletcher's growth strategy and efficiency improvements. The strong earnings report followed a January announcement by the company that it had signed an agreement to purchase 26% of an Ontario manufacturer and marketer of deli meat products, a move aimed at positioning Fletcher's as Canada's largest deli supplier.

While both CanAmera and Fletcher's have performed well, the Company remains focused on improving operations for two important players in its Agri-Food segment, Can-Oat and CSP Foods.

Marketing challenges encountered by Can-Oat in the first quarter have continued. Although efforts to secure additional markets for the new Saskatoon facility are ongoing, the Pool now expects no progress in time to significantly affect this fiscal year's results. Accordingly, both sales and earnings projections for Can-Oat have been sharply reduced.

At CSP Foods, the Company continues to pursue the turnaround strategy put in place last year. In January of 1999, in order to improve utilization of its production capacities, CSP Foods announced the closure of its LaPrairie, Quebec and Colborne, Ontario plants and the consolidation of operations at Etobicoke, Ontario and Saskatoon, Saskatchewan. Further efficiencies are expected from centralizing distribution for Eastern Canada in Mississauga, Ontario. As a result of these changes, CSP Foods recorded a one-time restructuring charge against earnings of $4.5 million before tax.

### Livestock Marketing

Sales for this segment for the first six months of fiscal 1999 were $57.5 million, comparable to 1998's $58.0 million. Operating earnings for the same period were $0.6 million, down from $3.2 million a year earlier, as livestock earnings were mostly offset by losses from hog operations.

Cattle handling volumes for the first half of fiscal 1999 were down 6% compared to the previous year, with improved levels in the current quarter partly offsetting slower deliveries last quarter due to an early harvest. As a result of the lower volumes, earnings were somewhat below last year. Looking ahead, handling levels for fiscal 1999 are expected to be lower than the prior year as a result of a decrease in the beef cow herd in Western Canada in 1997.

Hog sales for this period originated primarily from one facility. Sales from a second production unit commenced in January with four additional projects expected to begin sales next fiscal year. Although the Company does not anticipate approving the construction of further new facilities of this type in the foreseeable future, it is actively pursuing other alliances intended to increase hog production in Western Canada. The Pool's objective is to reduce its investment in future facilities while enabling it to utilize its expertise in operating large hog production enterprises and to leverage its grain procurement and value-added processing businesses.

Although earnings for pork producers have been severely reduced by low prices, signs of a turnaround are evident. After reaching a 27 year low in December, hog prices have since rebounded to levels approaching the breakeven point for producers. While current large U.S. supplies continue to exert downward pressure on the market, further recovery is anticipated by year end.

### Publishing and Other

Sales for this segment for the first six months of fiscal 1999 were $6.7 million, down slightly from last year, while operating earnings decreased to $0.8 million from $1.3 million. The primary factors for the earnings decrease were last year's disposal of PrintWest Communications Ltd. and higher printing and staffing costs for *The Western Producer.*

### Liquidity and Capital Resources

Cash from operations was $12.2 million for the second quarter of fiscal 1999 bringing the six month total to $19.6 million compared to $44.8 million one year earlier. Capital asset additions for the first two quarters of fiscal 1999 totaled $170.4 million, of which $74.3 million related to Project Horizon. In addition to Project Horizon, capital funds were spent on the Pool's pork production facilities and the continued construction of port terminals in Manzanillo, Mexico and Gdansk, Poland.

Although the Pool's balance sheet remains strong, weaker earnings over the past several quarters and funding of key strategic capital projects have resulted in a debt to equity ratio of 53:47 at January 31, 1999 compared to 45:55 one year ago. Although the current ratio was down from January 31, 1998's level of 1.26 to 1.00, it still remained relatively strong at 1.13 to 1.00.

Subsequent to the end of the quarter, the Company successfully completed a $150 million debt offering pursuant to its medium term note program. Proceeds from the sale of the 5 year 7.25% notes were primarily used to repay draws on committed line facilities.

### Year 2000

The Company commenced its Year 2000 program in May 1996. This program involves identifying operating and information systems and equipment which are affected by Year 2000 issues and taking remedial action, primarily:

- Repairing ongoing applications.
- Replacing certain applications with custom solutions which are being developed primarily to support improved business processes but which will also be Year 2000 ready.
- Replacing other applications with new vendor-supplied Year 2000 compliant packages, including human resources and financial accounting and reporting systems.

The majority of costs will be capitalized and amortized in accordance with the Company's policy for information technology upgrades. The overall program also includes testing of key systems in a forward dated environment, contingency planning for business interruption, and contacting key suppliers and customers to ascertain their Year 2000 readiness.

The Year 2000 program is supervised by a Year 2000 Governance Group which is chaired by a senior executive.

Plans are proceeding primarily as scheduled and, at this time, the Company does not anticipate any critical issues which will have a material adverse effect on its financial condition or its results from operations.

### Outlook

Difficult industry conditions faced by Western Canada's agriculture sector, particularly a severely reduced grain export program, are expected to continue over the near term and will present significant operating challenges for grain companies. During this period, the Pool is focusing on cost control, margin improvement and capital expenditure restraint. However, due primarily to deteriorating grain volumes along with lower expectations for several of the Company's agri-food processing units, expected results for fiscal 1999 have been substantially reduced. Despite the weaker short-term outlook, the Pool remains confident about the long-term opportunities and the Company's strategic focus.

Leroy Larsen
President and
Chairman of the Board

D.K. Loewen
Chief Executive Officer
March 17, 1999

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# Saskatchewan Wheat Pool
# Second Quarter Report
# January 31, 1999

POOL
Saskatchewan Wheat Pool