

# The Ontario Wheat Producers' Marketing Board

## FINANCIAL STATEMENTS

The Financial Statements can be viewed at [www.ontariowheatboard.com](http://www.ontariowheatboard.com) or a printed version is available by calling 519-767-6537



### Auditors' Report

To the Members of  
The Ontario Wheat Producers' Marketing Board,

We have audited the balance sheet of the Ontario Wheat Producers' Marketing Board as at May 31, 2005, the statements of operations and distribution of earnings to producers for the 2004 crop accounts for pool A soft white wheat, pool B hard red winter, pool C hard red spring, pool D hard red spring interim registered varieties, pool E and F soft red and common red wheat and pool G wheat graded feed, and the statements of operations - general fund, cash flows, 2004 crop forward contracting for cash account, general fund and research and market development fund for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 financial statements present fairly, in all material respects, the financial position of the Ontario Wheat Producers' Marketing Board as at May 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Guelph, Ontario  
July 11, 2005

*R. Lott & B. Boehman*  
Chartered Accountants

### Balance Sheet

as at May 31, 2005

	2005	2004
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,649,524	\$ 885,720
Accounts receivable	1,371,701	3,496,550
Prepaid expenses	528,750	32,497
Inventory	1,446,262	345,361
Unrealized hedging gain, current crop year	-	18,815
Unrealized hedging gain, future crop years (Note 11)	303,769	711,865
	5,300,006	5,490,808
FIXED INCOME INVESTMENTS (Note 3)	6,052,211	6,378,167
LONG TERM ACCOUNT RECEIVABLE (Note 4)	69,260	69,260
CAPITAL (Note 5)	14,590	19,014
	\$ 11,436,067	\$ 11,957,249
<b>LIABILITIES AND FUND BALANCES</b>		
<b>CURRENT LIABILITIES</b>		
Bank indebtedness (Note 7)	\$ 2,794,316	\$ 999,180
Accounts payable and accrued liabilities	319,306	941,907
Deferred revenue - on future crop year	316,142	9,939
Unrealized hedging loss current year crop (Note 11)	127,924	-
Deferred research grants	28,575	44,997
Liability to producers (Note 6)	1,622,360	2,256,609
	5,208,623	4,252,632
<b>FUND BALANCES</b>		
Forward contracting reserve fund	3,067,776	2,931,853
General fund	1,498,988	2,844,839
Research and market development fund	1,660,680	1,927,925
	\$ 11,436,067	\$ 11,957,249

The attached notes are an integral part of these financial statements.

APPROVED BY THE BOARD:

*R. Lott* Chair  
*B. Boehman* 1st Vice Chair

### Statement of Operations and Distribution of Earnings to Producers

2004 Crop Account - Pool A Soft White Wheat  
Year ended May 31, 2005

	2004 Crop		2003 Crop	
	Amount	Per Tonne	Amount	Per Tonne
Receipts from Producers: Tonnes	20,978		42,922	
<b>REVENUE</b>				
Sales	\$ 3,068,377		\$ 6,282,301	
Inventory, end of year	-		-	
Inventory, beginning of year	-		-	
	3,068,377	\$ 146.27	6,282,301	\$ 146.36
Interest earned	3,358	0.16	6,334	0.15
Options and futures	318,859	15.20	918,398	21.40
	3,390,594	161.63	7,207,033	167.91
<b>EXPENSES</b>				
Inventory adjustment	2,782	0.13	5,638	0.13
Elevation	60,505	2.88	199,703	4.65
Inspection and treating	7,729	0.37	22,720	0.53
Interest	20,830	0.99	40,747	0.95
Options and futures	67,412	3.21	723,283	16.85
Storage	30,430	1.45	80,823	1.88
Other	(6,403)	(0.29)	23,758	0.55
Transportation	-	-	53,923	1.26
	183,285	8.74	1,150,595	26.80
Transfer from General Fund	77,661	3.70	-	-
<b>EARNINGS DISTRIBUTED TO PRODUCERS</b>	\$ 3,284,970	\$ 156.59	\$ 6,056,438	\$ 141.11
<b>EARNINGS DISTRIBUTED AS FOLLOWS:</b>				
Initial plus Interim Payments	\$ 3,041,835	\$ 145.00	\$ 5,494,853	\$ 128.03
Final Payment (Note 6)	243,135	11.59	561,585	13.08
	\$ 3,284,970	\$ 156.59	\$ 6,056,438	\$ 141.11

The attached notes are an integral part of these financial statements.

### Statement of Operations and Distribution of Earnings to Producers

2004 Crop Account - Pool B Hard Red Winter  
Year ended May 31, 2005

	2004 Crop		2003 Crop	
	Amount	Per Tonne	Amount	Per Tonne
Receipts from Producers: Tonnes	30,923		14,928	
<b>REVENUE</b>				
Sales	\$ 4,371,531		\$ 2,356,406	
Inventory, end of year	7,988		-	
Inventory, beginning of year	-		-	
	4,379,519	\$ 141.63	2,356,406	\$ 157.85
Interest earned	4,949	0.16	2,203	0.15
Options and futures	470,016	15.20	319,413	21.40
	4,854,484	156.99	2,678,022	179.40
<b>EXPENSES</b>				
Inventory adjustment	(22,464)	(0.73)	(141)	(0.01)
Elevation	104,818	3.39	51,665	3.46
Inspection and treating	13,225	0.43	9,024	0.60
Interest	30,705	0.99	14,172	0.95
Options and futures	102,271	3.31	251,554	16.85
Storage	59,966	1.94	27,476	1.84
Other	(14,462)	(0.47)	10,121	0.68
Transportation	274,059	8.86	371,237	24.86
Transfer from General Fund	114,477	3.70	-	-
<b>EARNINGS DISTRIBUTED TO PRODUCERS</b>	\$ 4,694,902	\$ 151.83	\$ 2,306,785	\$ 154.54
<b>EARNINGS DISTRIBUTED AS FOLLOWS:</b>				
Initial plus Interim Payments	\$ 4,257,475	\$ 137.68	\$ 1,973,715	\$ 132.22
Protein Payments at Delivery	118,339	3.83	108,231	7.26
Final Payment (Note 6)	319,088	10.32	224,839	15.06
	\$ 4,694,902	\$ 151.83	\$ 2,306,785	\$ 154.54

The attached notes are an integral part of these financial statements.

### Statement of Operations and Distribution of Earnings to Producers

2004 Crop Account - Pool C Hard Red Spring  
Year ended May 31, 2005

	2004 Crop		2003 Crop	
	Amount	Per Tonne	Amount	Per Tonne
Receipts from Producers: Tonnes	10,779		11,244	
<b>REVENUE</b>				
Sales	\$ 1,870,765		\$ 2,342,500	
Inventory, end of year	119,954		-	
Inventory, beginning of year	-		-	
	1,990,719	\$ 184.68	2,342,500	\$ 208.33
Interest earned	1,725	0.16	1,659	0.15
Options and futures	163,838	15.20	240,594	21.41
	2,156,282	200.04	2,584,753	229.89
<b>EXPENSES</b>				
Inventory adjustments	(9,227)	(0.86)	(4,483)	(0.40)
Elevation	41,923	3.89	40,608	3.61
Inspection and treating	10,676	0.99	12,216	1.09
Interest	10,703	0.99	10,675	0.95
Options and futures	67,749	6.29	189,479	16.85
Storage	47,304	4.39	59,970	5.33
Other	(17,001)	(1.58)	(30,270)	(2.69)
Transportation	2,131	0.20	5,548	0.49
	154,258	14.31	283,743	25.23
Transfer from General Fund	39,904	3.70	-	-
<b>EARNINGS DISTRIBUTED TO PRODUCERS</b>	\$ 2,041,928	\$ 189.43	\$ 2,301,010	\$ 204.66
<b>EARNINGS DISTRIBUTED AS FOLLOWS:</b>				
Initial plus Interim Payments	\$ 1,762,378	\$ 163.50	\$ 1,817,372	\$ 161.63
Protein Payments at Delivery	180,210	16.71	191,031	17.01
Final Payment (Note 6)	99,340	9.22	292,607	26.02
	\$ 2,041,928	\$ 189.43	\$ 2,301,010	\$ 204.66

The attached notes are an integral part of these financial statements.

### Statement of Operations and Distribution of Earnings to Producers

2004 Crop Account - Pool D Hard Red Spring Interim Registered Varieties  
Year ended May 31, 2005

	2004 Crop		2003 Crop	
	Amount	Per Tonne	Amount	Per Tonne
Receipts from Producers: Tonnes	1,984		3,001	
<b>REVENUE</b>				
Sales	\$ 348,070		\$ 608,071	
Inventory, end of year	2,424		-	
Inventory, beginning of year	-		(20,161)	
	350,494	\$ 176.65	587,910	\$ 195.91
Interest earned	318	0.16	443	0.15
Options and futures	30,158	15.20	64,209	21.40
	380,970	192.01	652,562	217.46
<b>EXPENSES</b>				
Inventory adjustments	(6,345)	(3.20)	(6,945)	(2.31)
Elevation	6,386	3.22	5,561	1.85
Inspection and treating	1,847	0.93	2,101	0.70
Interest	1,970	0.99	2,849	0.95
Options and futures	7,091	3.57	50,567	16.85
Storage	9,490	4.78	16,366	5.45
Other	(870)	(0.43)	2,273	0.76
Transportation	-	-	1,481	0.49
	19,569	9.86	74,253	24.74
Transfer from General Fund	7,345	3.70	-	-
<b>EARNINGS DISTRIBUTED TO PRODUCERS</b>	\$ 368,746	\$ 185.85	\$ 578,309	\$ 192.72
<b>EARNINGS DISTRIBUTED AS FOLLOWS:</b>				
Initial plus Interim Payments	\$ 308,534	\$ 155.50	\$ 461,536	\$ 153.80
Protein Payments at Delivery	26,137	13.18	49,505	16.50
Final Payment (Note 6)	34,075	17.17	67,268	22.42
	\$ 368,746	\$ 185.85	\$ 578,309	\$ 192.72

The attached notes are an integral part of these financial statements.

### Statement of Operations and Distribution of Earnings to Producers

2004 Crop Account - Pool E and F Soft Red and Common Red Wheat  
Year ended May 31, 2005

	2004 Crop		2003 Crop	
	Amount	Per Tonne	Amount	Per Tonne
Receipts from Producers: Tonnes	74,037		39,329	
<b>REVENUE</b>				
Sales	\$ 10,096,688		\$ 6,126,471	
Inventory, end of year	24,354		-	
Inventory, beginning of year	-		(4,683)	
	10,121,042	\$ 136.70	6,121,788	\$ 155.65
Interest earned	11,851	0.16	5,804	0.15
Options and futures	1,125,335	15.20	841,511	21.40
	11,258,226	152.06	6,969,103	177.20
<b>EXPENSES</b>				
Inventory adjustment	4,097	0.06	5,768	0.15
Elevation	167,301	2.26	101,353	2.58
Inspection and treating	14,690	0.20	10,254	0.26
Interest	73,514	0.99	37,336	0.95
Options and futures	246,941	3.34	662,730	16.85
Storage	77,574	1.04	131,533	3.34
Other	(29,093)	(0.40)	11,881	0.30
Transportation	-	-	19,366	0.49
	555,024	7.49	980,221	24.92
Transfer from General Fund	274,086	3.70	-	-
<b>EARNINGS DISTRIBUTED TO PRODUCERS</b>	\$ 10,977,288	\$ 148.27	\$ 5,988,882	\$ 152.28
<b>EARNINGS DISTRIBUTED AS FOLLOWS:</b>				
Initial plus Interim Payments	\$ 10,254,140	\$ 138.50	\$ 5,269,728	\$ 133.99
Protein Payments at Delivery	723,148	9.77	719,154	18.29
Final Payment (Note 6)	10,977,288	\$ 148.27	\$ 5,988,882	\$ 152.28

The attached notes are an integral part of these financial statements.

### Statement of Operations and Distribution of Earnings to Producers

2004 Crop Account - Pool G Wheat Graded Feed  
Year ended May 31, 2005

	2004 Crop		2003 Crop	
	Amount	Per Tonne	Amount	Per Tonne
Receipts from Producers: Tonnes	50,999		14,850	
<b>REVENUE</b>				
Sales	\$ 5,613,659		\$ 2,252,163	
Inventory, end of year	-		-	
Inventory, beginning of year	-		(49,322)	
	5,613,659	\$ 110.07	2,202,841	\$ 148.33
Interest earned	8,164	0.16	2,192	0.15
Options and futures	775,161	15.20	317,740	21.40
	6,396,984	125.43	2,522,773	169.88
<b>EXPENSES</b>				
Inventory adjustment	710	0.01	(56)	-
Elevation	196,302	3.85	61,190	4.12
Inspection and treating	17,732	0.35	8,201	0.55
Interest	50,639	0.99	14,097	0.95
Options and futures	163,880	3.21	250,235	16.85
Storage	113,572	2.23	26,471	1.78
Other	-	-	11,800	0.79
Transportation	-	-	7,388	0.50

# The Ontario Wheat Producers' Marketing Board

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### May 31, 2005

#### Statement of Cash Flows

Year ended May 31, 2005

	2005	2004
<b>OPERATING ACTIVITIES</b>		
Excess (deficiency) of revenues over expenses	\$ (643,579)	\$ 2,340,793
Transfers	(702,272)	-
Adjustments for:		
Amortization	16,572	24,277
Unrealized gain	-	(702,272)
Change in non-cash working capital (Note 12)	115,461	26,822,012
	(1,213,818)	26,484,810
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(12,148)	(7,798)
Decrease (increase) in fixed income investments	325,956	(3,435,677)
	313,808	(3,443,475)
<b>FINANCING ACTIVITIES</b>		
Change in forward contracting reserve	135,923	(870,571)
Change in research and market development fund	(267,245)	107,168
	(131,322)	(763,403)
<b>NET CHANGE IN CASH</b>		
	(1,031,332)	24,277,932
Bank indebtedness, beginning of year	(113,460)	(24,391,392)
Bank indebtedness, end of year	\$ (1,144,792)	\$ (113,460)
<b>BANK INDEBTEDNESS CONSISTS OF</b>		
Cash	\$ 1,649,524	\$ 885,720
Bank indebtedness	(2,794,316)	(999,180)
	\$ (1,144,792)	\$ (113,460)

The attached notes are an integral part of these financial statements.

#### Statement of 2004 Crop Forward Contracting for Cash Account

Year ended May 31, 2005

	2004 Crop		2003 Crop	
	Amount	Per Tonne	Amount	Per Tonne
Receipts from Producers: Tonnes	29,255		238,686	
Other receipts: Tonnes	2,204		31,758	
	31,459		270,444	
<b>REVENUE</b>				
Sales	\$ 3,458,365		\$ 50,605,893	
Inventory, beginning of year	(345,361)		(8,793,722)	
Inventory, end of year	1,291,540		345,361	
Basis and hedging gains	709,410		7,889,294	
Interest earned	4,683		35,225	
	5,118,637	\$ 162.71	50,082,051	\$ 185.18
<b>EXPENSES</b>				
Inventory adjustment	(9,566)	(0.30)	(4,680)	(0.02)
Elevation	89,755	2.85	802,765	2.97
Inspection and treating	12,249	0.39	118,009	0.44
Interest	29,049	0.92	226,589	0.84
Storage	58,204	1.85	726,644	2.69
Transportation	8,974	0.29	117,770	0.44
	188,665	6.00	1,987,097	7.36
<b>BALANCE, BEFORE WHEAT ACQUIRED</b>				
	4,929,972		48,094,954	
Wheat acquired - producer	4,653,620		42,819,522	
Wheat acquired - other	256,587		6,527,849	
<b>BALANCE, after wheat acquired (Note 9)</b>				
	19,765	0.63	(1,052,417)	(3.89)
<b>FORWARD CONTRACTING RESERVE, BEGINNING OF YEAR</b>				
	2,931,853		3,802,424	
	2,951,618		2,750,007	
<b>Investment Income, net</b>				
FORWARD CONTRACTING RESERVE, END OF YEAR	116,158		181,846	
	\$ 3,067,776		\$ 2,931,853	

The attached notes are an integral part of these financial statements.

#### Statement of General Fund

Year ended May 31, 2005

	2005	2004
<b>BALANCE, BEGINNING OF YEAR</b>		
	\$ 2,844,839	\$ 504,046
Excess (deficiency) of revenues over expenses	(643,579)	2,340,793
Transfer to 2004 crop pool accounts	(702,272)	-
<b>BALANCE, END OF YEAR</b>		
	\$ 1,498,988	\$ 2,844,839

The attached notes are an integral part of these financial statements.

#### Statement of Research and Market Development Fund

Year ended May 31, 2005

	2005	2004
<b>BALANCE, BEGINNING OF YEAR</b>		
	\$ 1,927,925	\$ 1,820,757
Investment income, net	76,376	84,999
Research and market development revenue	189,178	445,415
Research and market development expenses	(532,799)	(423,246)
<b>BALANCE, END OF YEAR</b>		
	\$ 1,660,680	\$ 1,927,925

The attached notes are an integral part of these financial statements.

#### Notes to the Financial Statements

May 31, 2005

##### 1. ACT OF INCORPORATION AND MANDATE

The Ontario Wheat Producers' Marketing Board ("Wheat Board") was established in 1958 by a vote of Ontario wheat producers. According to the Farms Products Marketing Act regulation 442 all wheat grown in the Province of Ontario shall be marketed through the Wheat Board or one of its programs. The Wheat Board purchases wheat from producers in Ontario and sells to the domestic market as well as to foreign markets.

As an agricultural organization the Wheat Board is exempt from income taxes under Section 149(1)(c) of the Income Tax Act.

##### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Summarized below are the policies considered significant for the Wheat Board.

##### Revenue

Revenue from wheat sales is recognized in the accounts under the terms and value defined in the sales contract. The contract identifies when the sale is recognized.

License fee revenue is recognized for board declared wheat on the date of delivery. For direct marketed wheat license fee revenue is recognized on the date of sale.

##### Inventory

The wheat inventories are valued at the lower of the contracted price or market price.

##### Capital assets

Capital assets are stated at cost. Amortization is calculated using the straight-line method at the following annual rates:

Office equipment	15% in years 1 to 6, 10% in year 7
Computer hardware	50%
Computer software	100%

Amortization is prorated in the year of acquisition.

##### Investments

Short-term investments are carried at the lower of cost or market value.

Long-term investments are carried at cost. If a loss in value of an investment is considered a permanent decline the investment is written down to the market value. Investments that will mature within the next fiscal period are classified as short-term investments.

##### Deferred research grant

Deferred research grants represent grants received in advance and relate to a future year. The revenue has been deferred and will be recognized in the appropriate fiscal year.

##### 3. FIXED INCOME INVESTMENTS

The fixed income investments include cash and federal and provincial bonds with maturity dates ranging from December 1, 2005 to June 1, 2013 with interest rates ranging from 3% to 6.5%. The market value of the fixed income investments as at May 31, 2005 is \$7,132,066 (2004 - \$6,756,449).

##### 4. LONG-TERM ACCOUNT RECEIVABLE

The long-term receivable is to be repaid by Agri-e Business Group Inc., over a 5-year period commencing in 2008. There is no interest being charged on this amount.

##### 5. CAPITAL ASSETS

	2005		2004	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office & computer equipment	\$ 71,493	\$ 56,903	\$ 14,590	\$ 19,014

##### 6. LIABILITY TO PRODUCERS

The liability to producers comprises the final payment per pool. The final payment has been approved by the Board of Directors of the Wheat Board and is subject to approval by the Ministry of Agriculture Canada.

	2005	2004
Wheat pool A - Soft White	\$ 243,135	\$ 561,585
Wheat pool B - Hard Red Winter	319,088	224,839
Wheat pool C - Hard Red Spring	99,340	292,607
Wheat pool D - Hard Red Spring Interim Registered Varieties	34,075	67,268
Wheat pool E and F - Soft Red and Common Red	723,148	719,154
Wheat pool G - Wheat Graded Feed	203,574	391,156
	\$ 1,622,360	\$ 2,256,609

##### 7. CREDIT FACILITIES

The Wheat Board can borrow to fund operations under its operating line. The available operating line fluctuates during the year depending on the need for funds and ranges from \$40 million from July to October; \$20 million from November to December; and \$10 million from January to June. There is also an operating line up to \$5 million U.S. for foreign exchange contracts.

The operating line bears interest at prime rate minus 0.50%. The Wheat Board has pledged its fixed income investments, equipment, inventory, accounts receivable and all personal property acquired in the future under a general security agreement as security for these facilities.

##### Bank covenants

The minimum required equity is \$3.5 million.

##### 8. INITIAL PAYMENT GUARANTEE

A portion of the initial payment to producers participating in the pools is guaranteed by the federal government under the Agricultural Marketing Programs Act.

##### 11. FINANCIAL INSTRUMENTS (continued)

##### iv) Credit risk

The major concentration of credit risk arises from the Wheat Board's accounts receivable. The majority of the accounts receivable are from organizations in the agricultural and food processing industry. The Wheat Board manages the risk through evaluation and monitoring processes.

##### 12. ADDITIONAL INFORMATION TO THE STATEMENT OF CASH FLOWS

Change in non-cash working capital

	2005	2004
Decrease in accounts receivable	\$ 2,124,849	\$ 28,466,949
(Increase) decrease in prepaid expenses	(496,253)	323,035
(Increase) decrease in inventories	(1,100,901)	8,522,527
Increase (decrease) in unrealized hedge activity, current crop year	146,739	(502,287)
Decrease (increase) in unrealized hedge activity, future crop years	408,096	(9,593)
Decrease in accounts payable and accrued liabilities	(622,601)	(2,043,485)
Increase in deferred option revenue	306,203	9,939
Decrease in deferred research grants	(16,422)	(71,461)
Decrease in liability to producers	(634,249)	(7,873,612)
	\$ 115,461	\$ 26,822,012

During the year the Wheat Board paid interest of \$253,104 (2004 - \$379,030) and received interest of \$347,975 (2004 - \$349,387).

##### 13. CONTRACTUAL OBLIGATIONS

The minimum rentals payable under long-term operating leases, exclusive of certain operating costs, including research project commitments for which the Wheat Board is responsible, are as follows:

2006	\$221,766
2007	110,491
2008	90,491
2009	79,168
2010	53,507
	\$555,423

##### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Foreign currency translation

Purchased futures contracts are translated into Canadian dollars at exchange rates prevailing at the date of purchase. Gains and losses generated through the liquidation of futures and options are translated into Canadian dollars at exchange rates prevailing at the date of liquidation. Exchange adjustments resulting from the translation of these transactions are allocated to the appropriate pool account. Other income and expenses are translated at the daily exchange rates in effect during the year.

Monetary assets and liabilities denominated in United States dollars are translated at the exchange rate in effect at the balance sheet date. Exchange adjustments arising from conversion of foreign currency denominated monetary assets or liabilities are recorded in appropriate pool or forward contract accounts.

##### Cash forward contracts

The Wheat Board enters into cash forward contracts with producers to purchase wheat at a contracted price on a defined delivery date. The position taken by the Wheat Board as a result of the cash forward contracts is hedged through the sale of futures contracts that approximate the price, quantity and delivery term. Any gains or losses relating to the cash forward contracts or the designated futures are recognized upon the closure of the cash forward contract.

##### Financial instruments

In order to manage its exposure to currency and price risks the Wheat Board uses futures and options. Premiums received on the settlement of futures and options, relating to the current crop year are included in the revenue of each pool or forward contract account. Premiums paid on the settlement of futures and options, relating to the current crop year are included in the expenditures of each pool or forward contract account. The premiums paid or received on settlement of futures and options, relating to future crop years, are deferred and recognized in the appropriate crop year.

The Wheat Board formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forward transactions. The Wheat Board also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current or non-current assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

##### Interest and bank charges

Interest expense and charges incurred by the Wheat Board and interest revenue earned are calculated on an accrual basis. Interest expenses and revenues related to the operation of the pools and forward contract programs are allocated to the separate pools and forward contract account on the basis of relative tonnage.

##### General and administrative expenses

Beginning with the 2003 crop year the Wheat Board has discontinued the policy of allocating license fee revenues and indirect administrative costs to the various pool accounts and forward contract for cash account based on tonnage. This was approved by a resolution of the Board.

The intent of the change is that the license fees will be set to cover Administration, Marketing Programs, Research and Market Development activities, and other producer programs to the benefit of all producers.

##### Use of estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

##### 9. CROP FORWARD CONTRACTING FOR CASH ACCOUNT

The balance after wheat acquired is mainly the result of basis and hedging gains and losses combined with non-fulfillment of delivery on cash forward contracts. Futures are sold to hedge the Wheat Board's position on the cash forward contracts.

The nature of the forward contracting program will result in certain gains or losses in the cash forward contracting for cash account. The Wheat Board has determined that a residual portion of the gain should be set aside as a reserve to offset future losses. This amount has been determined based on a formula determined by the Board. If the gain in a given year exceeds the formula, the excess will be returned to the participating producers.

##### 10. EMPLOYEE FUTURE BENEFITS

The Wheat Board offers a defined contribution post retirement benefit plan to its employees. The total expense for the Wheat Board's defined contribution plan is \$27,636 (2004 - \$26,514).

##### 11. FINANCIAL INSTRUMENTS

##### i) Fair value of financial instruments

The Wheat Board's recognized financial instruments consist of accounts receivable, accounts payable and accrued liabilities, bank indebtedness, and liability to producers.

The fair values of these financial instruments approximate the carrying amounts due to their short-term nature.

##### ii) Foreign currency risk

The Wheat Board's exposure to currency risk lies in its cash forward contracts with producers. Cash forward contracts are denominated in Canadian dollars but are hedged with wheat futures denominated in United States dollars.

To manage the currency risk the Wheat Board purchases foreign exchange futures to protect itself from potential exchange losses. The open positions at May 31, 2005 are comprised of contracts expiring between September 2005 and June 2006 with a combined market value of USD \$40,250.

##### iii) Price risk

The Wheat Board entered into cash forward contracts with producers for the crop years 2005 and 2006 to deliver 10,792 tonnes of wheat in the amount of CDN \$1,674,471 in fiscal years 2005 and 2006 at an average price of CDN \$155 per tonne.

The Wheat Board has hedged its exposure through the sale of wheat futures with similar price, quantity and term. The open positions at May 31, 2005 are comprised of contracts expiring between July 2005 and May 2006 with a market value of USD \$62,913.

The Wheat Board also purchases put options and sells call options to improve the return for producers. The open positions as at May 31, 2005 are comprised of call options expiring December 2005 with a market value of USD \$70,875; and put options expiring December 2005 with a market value of USD (\$76,506). Open positions at May 31, 2005 also include foreign currency contracts expiring December 2005 with a total market value of USD (\$36,260) and future contracts expiring December 2005 with a market value of USD \$262,050. The unrealized gain on these options at May 31, 2005 is USD \$220,159.

The combined open positions for foreign currency, futures, and options, related to 2004 crop year inventory, at May 31, 2005 consist of foreign currency contracts expiring June 2005, with a total market value of USD (\$68,170) and future contracts expiring July 2005, with a total value of USD (\$34,088). The unrealized loss of these options at May 31, 2005 is USD (\$65,680) for the 2004 forward contract account and USD (\$36,578) for the 2004 pool accounts.

##### 14. CONTINGENT ASSET

In April 2005 the Wheat Board received notice that it has 82,670 common shares at a par value of \$10 USD per share as a result of patronage earned in past futures trading activity with a futures brokerage firm that is in the process of converting from a co-operative. Currently the shares cannot be traded except among the existing shareholders. Management is of the opinion that the value of the shares is not yet determinable and therefore not recognizable on the financial statements.

##### 15. NON-RECURRING TRANSACTION

In December 2004 the Wheat Board disbursed \$1,000,000 to the Grain Financial Protection Board. This amount was previously allocated and approved by the board in order to provide protection to wheat producers.

##### 16. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.