International Food and Agribusiness Management Review
Volume 7, Issue 3, 2004

Saskatchewan Wheat Pool

Marv Painter [a①]

[a] *Professor, Department of Management and Marketing, University of Saskatchewan, Commerce Room 187, 25 Campus Drive Saskatoon, Saskatchewan, S7N 5A7, Canada*

Abstract

In 1996, Saskatchewan Wheat Pool embarked on a strategy for growth and diversification by significantly expanding its asset base. This expansion brought with it many new costs, especially new fixed costs such as interest and depreciation. They failed to achieve the new revenues needed to support the higher fixed costs and consequently, found themselves in financial distress. In 2000, Mayo Schmidt was brought in as CEO to turn the company back to profitability. His strategy was to sell off all non-core assets and focus on the core businesses that built the company; grain handling and supplying farm inputs. 2004 would be a crucial year for Saskatchewan Wheat Pool.

Key Words: publicly traded co-operative, business strategy, financial distress, company turn-around, financial restructuring

① Corresponding author: Tel: + 306-966-8439
Email: painter@edwards.usask.ca

IAMA Agribusiness Case 7.3.B
Presented at the 1st Annual IAMA Case Conference, Montreux, Switzerland, June 2004.

December 2003

The October 2003 newspaper headline read, "Sask Pool sees light at end of tunnel"[1], as it referred to the Pool's 2003 fourth quarter financial results. Saskatchewan Wheat Pool (SWP) had not seen a quarterly profit since July of 1999. In early 2003, SWP had come dangerously close to bankruptcy, as they were unable to meet their debt obligations. Only a financial restructuring of the company's debt at that time allowed SWP to continue on as Saskatchewan's only publicly traded co-operative. Speaking about the fourth quarter results, Mayo Schmidt, Chief Executive Officer of SWP, said "We are certainly extremely pleased with the operating performance in the fourth quarter"[2]. On the announcement, SWP's publicly traded class B shares jumped 11 percent, to $.35 per share. Mr. Schmidt further indicated that SWP was "positioned to break-even in 2003-04 fiscal year".

There was a lot of excitement among SWP's 1,700 employees and Saskatchewan farmers after the announcement. Many employees and farmers owned SWP shares and were elated to see that the company had turned the corner. They were looking forward to future profitability for the once proud and largest co-operative in Saskatchewan.

Mayo Schmidt had been hired as CEO in January, 2000, after SWP reported a loss of $12.9 million in 1999. Mr. Schmidt's plan was to move SWP back to concentrating on its core business of grain handling and supplying inputs to farmers. However, the transition back to core business was painful as SWP experienced net losses of $90.7 million in 2000, $44 million in 2001, and $92.1 million in 2002[3]. Now, in 2003, although the company experienced a net loss of $50.3 million for the fiscal year ended July 31, the fourth quarter showed a return to profitability. The corner had been turned and Saskatchewan Wheat Pool was on its way to recovering its past profitability and dominant position in the Western Canadian agribusiness sector.

Saskatchewan Wheat Pool History[4]

Saskatchewan Wheat Pool was incorporated in 1923 in response to farmers' frustrations with the grain handling and marketing systems at that time. Elevator companies were the only outlet for farmers to market their grain and it was felt that there was not enough competition to provide farmers a good price for their grain. Hence, farmers joined together to form SWP, their own grain handling and

[1] Ewins, Adrian, The Western Producer, "Sask Pool sees light at end of the tunnel", October 30, 2003
[2] Ibid
[3] These losses include one-time provisions for closures and sales as well as the impact of low grain production due to drought.
[4] The source for much of the history is from the SWP website: http://www.swp.com/corpprofile/history.htm (this website reference is no longer available).

marketing co-operative. Alberta Wheat Pool was also created in 1923 and Manitoba Wheat Pool began in 1924.

In 1924 the three pools formed Canadian Co-operative Wheat Producers Ltd as their main selling agent. SWP added 451 country elevators and several terminal elevators in 1926. This positioned the pools to both handle and market grain for their members. However, the marketing division failed because as grain prices declined, the co-operative continued to pay higher prices to farmers. Hence, the 1930's began with the pools leaving the selling end of the grain business. The pools were a strong advocate for the formation of a central government controlled marketing agent and in 1935, the Canadian Wheat Board (CWB) was formed.

In the 1940's, SWP was expanding. In 1944, Saskatchewan Co-operative Livestock Producers became part of the pool, which became the livestock division. In 1947 SWP built a vegetable oil plant in Saskatoon to process flaxseed. In 1949 they built a flour mill on the same site. In 1951 SWP bought a grain terminal at Fort William. They leased a terminal at Vancouver in 1956. In 1957 they bought a terminal at Thunder Bay and in 1959, SWP bought country elevators and a terminal elevator at Fort William. During the 1960's, SWP bought three more terminals at Lakehead and entered the farm supply and seed business, which later came to be their Farm Service division. The three pools and Federated Co-operators Ltd. created Western Co-operative Fertilizer in 1964 and SWP's Vancouver terminal was built in 1968.

In the 1970's SWP worked to consolidate its position and strengthen and improve its country elevator system. The three pools bought the country and terminal elevator facilities of Federal Grain in 1972. That year, SWP approved the Country Elevator Development Plan, which involved long-range consolidation and a construction plan. Also, the three pools re-entered the grain marketing business by forming XCAN Grain. In 1975, CSP Foods was formed jointly with Manitoba Wheat Pool for oilseed processing, manufacturing, packaging and marketing. In 1977, SWP entered the Prince Rupert Grain Terminal Consortium with five other grain companies.

During the 1980's, SWP continued to expand. By this time, SWP had a very large market share in Saskatchewan and in many small towns, SWP was the only grain elevator left, as competitors had either been bought out by SWP or simply closed down. They had become somewhat of a monopoly in Saskatchewan grain handling as farmer loyalty to SWP was very high[5]. They also were taking on a role of speaking on behalf of Saskatchewan farmers as they (jointly with Alberta Wheat Pool and Manitoba Wheat Pool to form Prairie Pools) opened an Ottawa office and became a member of the Canadian Federation of Agriculture to pursue agricultural policy issues. The first SWP concrete elevator, an 8,000 tonne facility, was built in 1987. Other major investments in the 1980's included Northco Foods (parent

[5] SWP's market share of grain handling in Saskatchewan was over 60%.

company of Robin's Donuts), AgPro Grain (major supplier of the Canadian milling industry), Pound-Maker Agventures (an integrated feedlot and ethanol plant), and Prairie Malt Ltd. (malt producer for the brewing industry).

SWP was on a roll and expansion continued with Don Loewen, who became CEO in the early 1990's. The 1990's began with more diversified business initiatives, including CanAmera Foods (Canada's largest oilseed processing business), Print West Communications (print communications company), and International Business Division (created to market the Pool's technology to other countries). SWP continued to support The Canadian Wheat Board, which required by law that all wheat and malt barley be sold through CWB. This was significant to SWP because by 1998, 72% of all grain handled by the Pool and AgPro was for the account of CWB[6]. Farmers did not have an option to sell these commodities themselves nor could they further process without permission of the board. SWP considered itself to be the collective voice of its farmer members through discussions about policy, income, marketing, transportation, rural development, and the environment.

Traditionally, co-ops sell shares to members and the ownership structure provides one vote per member, regardless of how many shares the member owns. The traditional co-op structure has a potentially growth limiting flaw; it does not have a mechanism to raise new external equity financing. Public corporations are able to raise new equity financing through public share offerings whereas traditional co-ops are limited to internal equity (profits) and debt. By the mid – 1990's, SWP had a significant number of farmer members who were nearing retirement age, at which time they would demand a pay-out of their co-op equity[7]. This would represent a large drain on the financial resources of SWP. At the same time, SWP, with Don Loewen as CEO, was on a course of growth and diversification in the international agri-food industry, which required a significant amount of financing. To finance both the pay-out of equity and the expected growth in the company, SWP changed its ownership structure to allow for an additional source of financing - new external equity financing. So, on April 2, 1996, the initials SWP.B lit up the board at the Toronto Stock Exchange, marking Saskatchewan Wheat Pool's transition into Canada's largest publicly traded agricultural cooperative.

Transition to Publicly Traded Co-operative

The new corporate structure for SWP would solve the financing problem. SWP became a publicly traded co-operative, with its shares traded on the Toronto Stock Exchange. In 1996, SWP issued class A and B shares. To remain a co-op, only farmer members were allowed to own class A voting shares, and each farmer could own only one class A share. Therefore, full voting control still remained with farmer

[6] Saskatchewan Wheat Pool 1998 Annual Report, p. 28. The historical average is approximately 65% to CWB.
[7] SWP traditionally paid equity, but it was not a legal requirement.

members, with traditional co-op rules of one vote per member. Class B shares were issued to farmer members according to the value of their accumulated equity, at a par value of $10 per share (share opened on the first day of trading at $12 per share) . SWP put a limit on class B share ownership in that no single entity could own more than 10% of total shares outstanding. In total, SWP replaced farmer equity of almost $300 million with shares that could be traded on a stock exchange. This was the first use of new external equity financing for SWP – they no longer needed to pay out cash to retiring farmers as those farmers could now simply sell their shares on the stock market (however, this did not raise new money for SWP). SWP was virtually take-over proof in that only farmer members could own class A voting shares and the complete board of directors (16 of them) were farmers.

In the 1997 annual report, Don Loewen was brimming with optimism. "In fiscal 1997 – our first year as a publicly traded company – Saskatchewan Wheat Pool took several bold steps in a journey that is defining the future of prairie agriculture. We embarked on an ambitious capital expansion, the largest in the company's history."[8] The largest planned expansion was called Project Horizon, with a planned capital cost of $270 million. Project Horizon was a plan to build 22 new high-throughput grain handling facilities (concrete elevators) to replace many of the over 400 small wooden elevators in towns around Saskatchewan. The new elevators would be built in Saskatchewan (14), Alberta (6) and Manitoba (2). Some farmers were opposed to this plan because it meant higher transportation costs for them (they would have to haul their grain farther after their local elevator was closed, however, SWP did and still does offer trucking discounts to compensate) and it meant further depopulation of small towns and rural Saskatchewan communities as they lost an historic symbol of rural life, their elevator. However, Mr. Loewen argued that this was necessary for SWP to compete in a market where competition was increasing. Project Horizon would take advantage of lower rail transportation costs and offer farmers unprecedented economies of scale. The greater efficiencies achieved in grain handling would translate into lower handling fees for farmers and higher profits for SWP.

Project Horizon was only part of Mr. Loewen's aggressive expansion plan. In 1997 SWP invested in/purchased $120 million in the following[9]:

- Project Horizon
- 10% investment in the EuroPort grain terminal at Gdansk, Poland, to provide a strategic presence in the rapidly developing countries of eastern Europe;
- partnership with a food processor in Mexico to build a grain terminal at Manzanillo, Mexico;
- joint partnership with General Mills to build a grain facility at Northgate, North Dakota to take advantage of the growing cross-border trade in grains;

[8] Saskatchewan Wheat Pool 1997 Annual Report, p. 4.
[9] See Appendix A for a listing of SWP assets at July 31, 1997.

- established CanGro, a wholly owned subsidiary, to provide Heartland with high quality feeds;
- increased ownership position at Can-Oat Milling to 34% and construction of a new oat processing facility at Saskatoon;
- investment in Fletcher's Fine Foods Ltd. (35% ownership and in 1997 increased to 43%) to "form the final link in a profitable new chain of supply that extends from the farmer's field to the consumer's table"[10];
- plan to build up to 25 hog production facilities in western Canada through Heartland (7 were built).

All of these investments were in line with the overall company strategy of diversifying along the value-added chain; 'from field to plate'. In 1997, all of these investments were financed with long-term debt, bringing total long-term debt to over $235 million, total debt to $785 million, and a debt ratio of 60%. In 1997, SWP had net earnings of $45.6 million, or $1.54 per share, with dividends of $.40 per share. The share price had reached a high of $20.35 and closed for the year at $16.20. It appeared that the market expected the expansion to pay off.

In 1998, Mr. Loewen continued expansion at a rapid pace. Three new Project Horizon elevators opened for business and it was expected that nine more would be ready in 1999 and 10 more in 2000. During the year, SWP issued 7.8 million new class B shares to raise $160 million in new equity financing (average of $20.50 per share issued). In 1998, SWP invested in/purchased $368 million in the following[11]:

- Project Horizon
- Matrix Trading Company (50%) in Newark, England to improve SWP's access to the European markets;
- purchased farm supply outlets at Buchanan, Indian Head, Edenwold, and Cudworth, all in Saskatchewan;
- purchased Humboldt Flour Mills
- entered a strategic alliance with United Farmers of Alberta, to access their network of farm supply and fuel stores through out Alberta (no capital investment);
- through AgPro, purchased Double A Fertilizer of Kipp, Alberta;
- through AgPro, purchased DynaAgra Inc., of Crossfield, Alberta;
- AgPro purchased farm supply centres at Beausejour and Whitemouth, both in Manitoba;
- Two hog barns were built at Manitou and Bear Hills, each producing 55,000 hogs annually and four more barns were under construction;
- CanGro announced a new $8 million feed facility to be built at North Battleford;

[10] Saskatchewan Wheat Pool 1997 Annual Report, p. 6
[11] Saskatchewan Wheat Pool 1998 Annual Report

- CanGro purchased Western Feeds in Regina, Hillcrest Farms in Bruno, Sk., Taber Feeds in Taber, Alberta, and 40% of Agro Pacific Industries in British Columbia.
- Acquired full control of Can-Oat Milling;
- Opened a new SWP research and development facility in Saskatoon.

Don Loewen's vision of a SWP that was fully diversified along the value-added chain was taking shape. Figure 1 illustrates SWP's positioning in the value-added chain at the end of 1998.

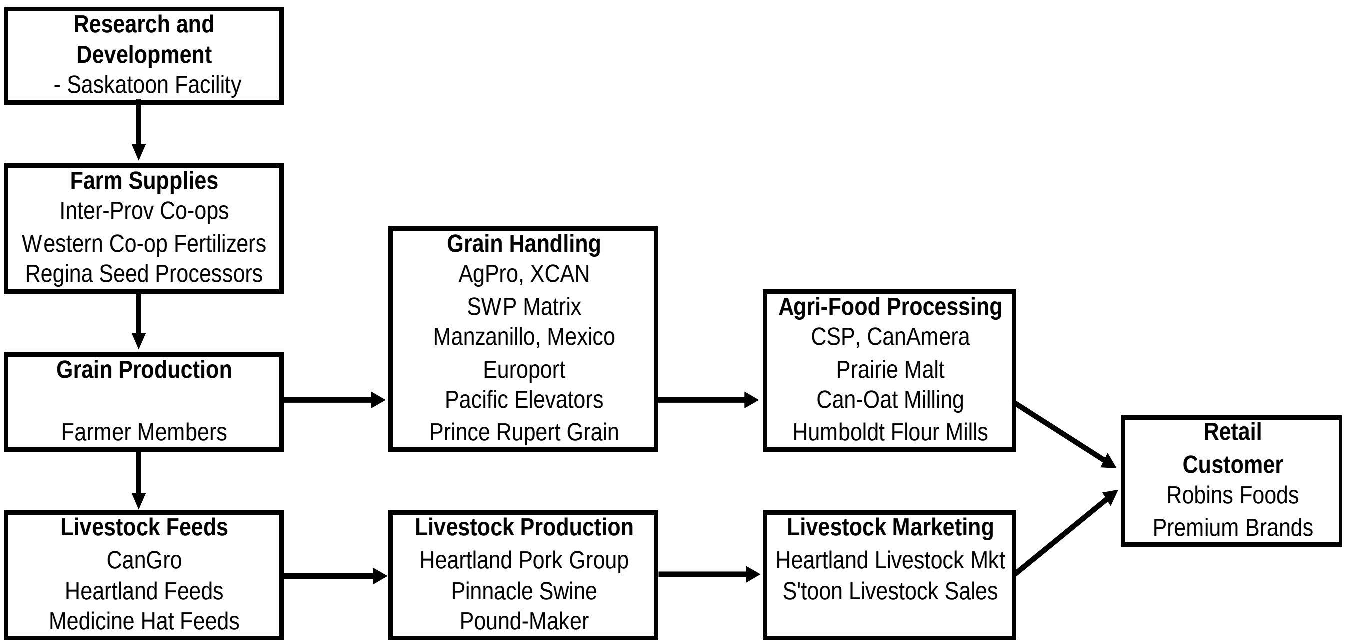

Figure 1: Saskatchewan Wheat Pool Assets and the Value-Added Chain (as of July 31, 1998)

In 1998 SWP net earnings were \$18.2 million, or \$.49 per share, with dividends of \$.40 per share. In the 1998 annual report, Mr. Loewen stated "A major decrease in handling volumes for the fourth quarter and higher annual operating costs were mainly responsible for disappointing operating earnings for the primary elevator system."[12] However, the tone in the annual report was optimistic and expectations were that SWP earnings would soon recover. In 1998, the share price had reached a high of \$24.40 and closed for the year at \$17.00.

In 1999, Mr. Loewen stuck to the expansion plan, spending \$311 million on capital assets, the largest being Project Horizon. Unfortunately, SWP experienced a net loss of \$12.9 million on significantly reduced sales revenue and SWP share price fell

[12] Saskatchewan Wheat Pool 1998 Annual Report, p. 4

to $8.60. In June, 1999, Don Loewen resigned his position as CEO and left SWP. Farmers and investors feared that Mr. Loewen's grand plan for SWP was unraveling.

Industry Transition

The western Canadian grain handling industry was once dominated by large prairie wheat pools – co-operatives that took delivery of grain from farmers and had it transported to ocean port for export. But there has been a significant industry transition in just the last 10 years. In the early 1990's the pools (SWP, Alberta Wheat Pool, Manitoba Wheat Pool) reigned supreme but today, two are gone and a third is struggling for survival. During the 1990's, Alberta Wheat Pool and Manitoba Pool Elevators merged to form a new co-op named Agricore. Agricore then gave up its co-op structure when it merged with United Grain Growers to become Agricore United.

By the mid 1980's all three co-ops could see problems ahead. While the Canadian grain industry was still insulated from U.S. competitors by a system of federal regulations, farmers involved with running the pools sensed that pressure would be placed on the industry to deregulate. The most obvious change centred on the prairie rail transportation system. Deregulation of the rail system and removal of the Crow Benefit transportation subsidy[13] meant that prairie elevators would soon face massive realignment and foreign competition. The three pools considered a merger to form a large co-operative that could withstand foreign competition. Bringing the pools together would achieve economies of scale, greater efficiencies in grain handling, eliminate duplications and provide capital for upgrades, and hopefully retain the loyalty of all co-operatively minded farmers. In 1991, delegates of all three pools met in Winnipeg to discuss how a merger could be completed. However, they could not agree on the details and it didn't happen.

In 1996, SWP became a publicly traded co-op, which stopped all attempts to merge the three pools. Many farmers in the three provinces stopped thinking of SWP as a co-op after 1996. There was a further shock to Alberta and Manitoba Pools when SWP announced Project Horizon, which proposed to build six new concrete terminals in Alberta and two in Manitoba, all in direct competition to SWP's sister co-operatives. But SWP was determined to make their company the dominant player in the grain industry.

[13] The Crow was a Federal government subsidy for transporting grain to ocean port. In 1995, the last year of the Crow Benefit, farmers in Saskatchewan paid an average freight cost of $13.37 per tonne to get grain to port, out of a total freight cost of $33.01, making the subsidy approximately $19 - $20 per tonne. This was labeled a trade-distorting subsidy by the WTO and was eliminated in 1995, leaving farmers to pay the total freight charges.

United Grain Growers (UGG) was Canada's first farmer run grain co-operative, started in 1906. In 1993, UGG became the first grain co-operative to de-mutualize and successfully go public. UGG's main reasons for going public were very similar to SWP's; acquiring an external source of equity financing in order to grow and expand. In response to SWP's Project Horizon, Alberta and Manitoba Wheat Pool's attempted a hostile takeover of UGG, which had a well-developed network of grain handling facilities in Saskatchewan. After UGG shareholders rejected the pools' bid, they accepted an offer from Archer Daniels Midland (ADM), a U.S. multinational food company, which gave ADM a 19% share of UGG. That financial injection allowed UGG to reduce its debt and finance its own expansion plan – building concrete elevators.

In 1998, Alberta Wheat Pool and Manitoba Pool Elevators merged to form Agricore, which immediately began building concrete elevators in Saskatchewan, Alberta, and Manitoba. SWP's Project Horizon was part of its strategy to gain market share; however, the competitors were also building large concrete grain handling facilities. UGG, Agricore and Pioneer were all building as were foreign companies such as Louis Dreyfus, Con Agra and Cargill. By the late 1990's there was competition to hire terminal construction companies as the pace of construction was intense. The industry was overbuilding its capacity. Each company thought it could get enough volume and market share to be profitable, however, the fight for market share was on. SWP, UGG and Agricore were closing small town wooden elevators because they were inefficient[14]. The loss of a local elevator was hard on a rural community and also meant that farmers had to haul grain further to a concrete terminal. This angered many farmers and loyalty to the co-operatives was starting to wane. Farmers could no longer see the difference between a publicly traded co-op and any other grain handler such as Louis Dreyfus or Cargill. Rather, farmers were starting to look at who was offering the best deal. As a result, there were a number of community-owned concrete elevators built during the 1990's, where farmers and other community members invested the equity capital. These community-owned facilities were in direct competition to the large grain handlers and, in some cases, the large grain handlers were partners in the local venture. This was value-added investment for rural communities who wanted to keep their elevator local and have some control over handling, grain cleaning, pelletizing, and any other value-added functions that could be performed locally.

In the mid 1990's, there was a surge in grain volumes which spurred on the rapid expansion of handling facilities. Much of the expansion, especially at SWP and Agricore, was financed with debt. By the late 1990's, grain handling volumes started to decline, which had a detrimental impact on each company's net earnings. The expansions had significantly increased fixed costs in the industry and as revenues declined, it became increasingly difficult to break-even. By 2001, Agricore had accumulated debt of $935 million, more than double the combined debt that the

[14] SWP has sold over 200 of its wooden elevators to rural communities for their storage use.

Alberta and Manitoba Pool's had been carrying a decade earlier. SWP was also over-leveraged with total debt of over $1.0 billion in 2001. UGG had reduced its debt with the infusion of capital from ADM and by 2001 was carrying debt of $368 million, only slightly higher than its 1991 level of $340 million. In November 2001, UGG absorbed Agricore in a merger that many grain industry observers would describe as a takeover, to form Agricore United (AU), the largest grain handling company in Canada.

To illustrate the transition in the grain handling industry, several figures are provided below. Figure 2 illustrates how the western Canadian grain handling industry has been moving to larger capacity concrete elevators and closing small town wooden elevators. Figure 3 illustrates the reduced grain handling volumes due to lower production levels, especially in the last several years. Figure 4 shows that the "Others" category is winning the market share competition, which includes community-owned elevators (examples are Weyburn, Wadena and Wilke, all in Saskatchewan), Cargill, Pioneer, Louis Dreyfus, N.M. Paterson & Sons, James Richardson International, Parrish and Heimbecker, and other smaller companies.

In February 2003[15], SWP CEO Mayo Schmidt indicated there were about 450 grain handling facilities in Western Canada but it would be possible to handle the entire crop with 110. He said of further consolidation in the industry; "We have no question that (the industry will) move in that direction very rapidly and aggressively. I would suggest that all companies in the industry today are either planning or in discussions, and it may be introductory discussions, on what they might do to take advantage of a consolidated industry and who they might have a relationship with that consolidates the industry".[16]

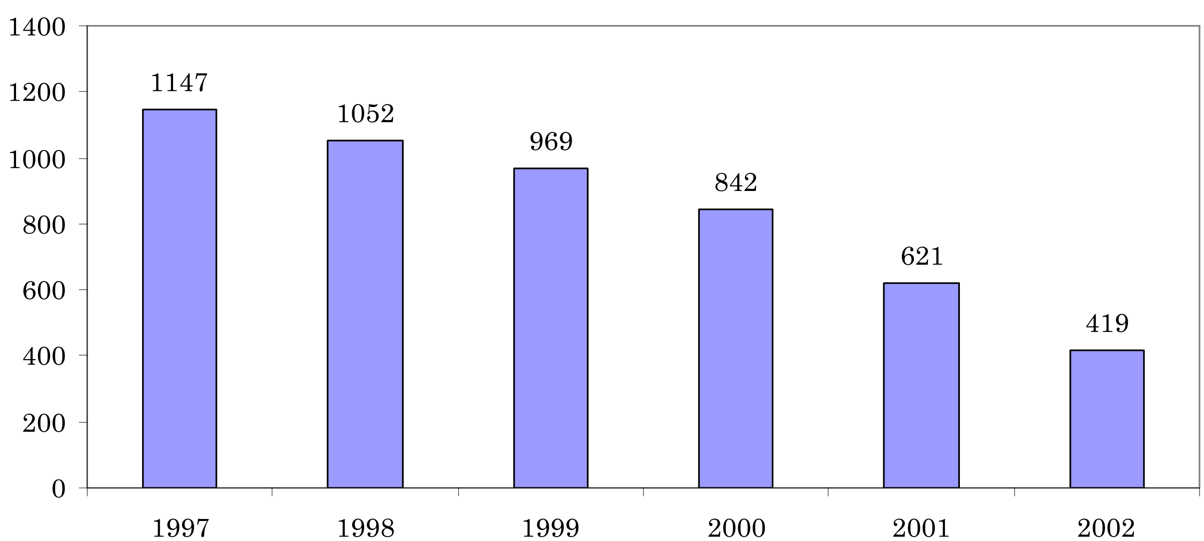

Figure 2: Total Number of Grain Elevators in Western Canada

[15] Karen Briere, "Sask Pool consolidation may continue", Western Producer, February 20, 2003.
[16] Ibid

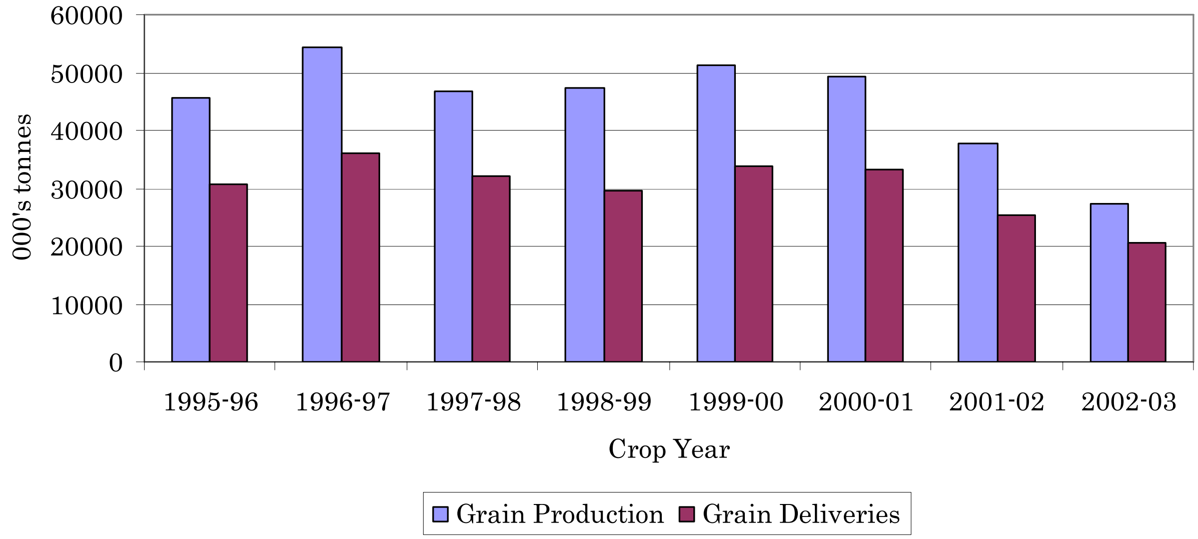

Figure 3: Western Canadian Grain Production and Deliveries to Primary Elevators

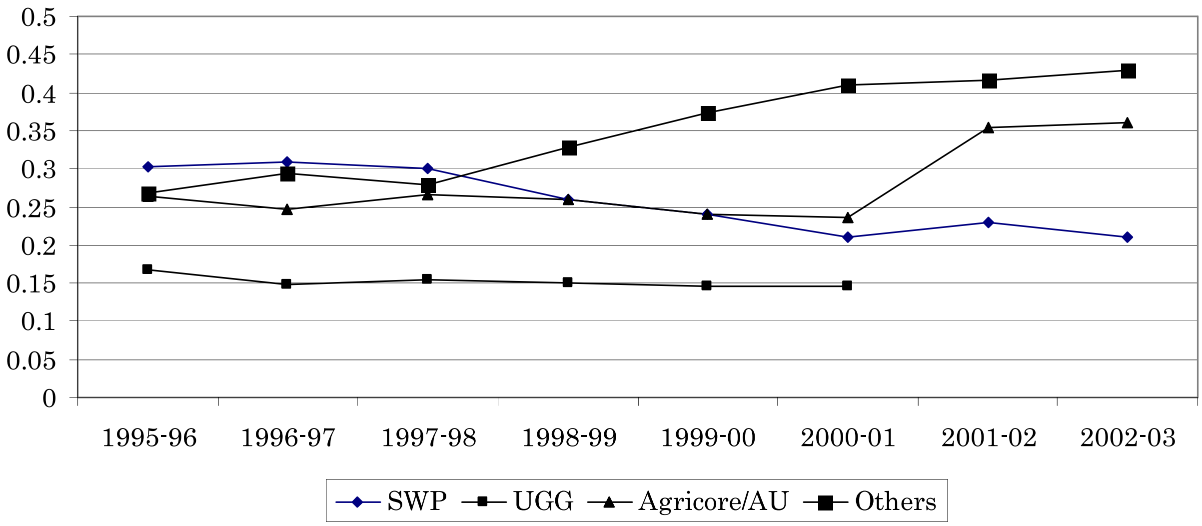

Figure 4: Western Canadian Grain Handling Market Share by Company
Note: In the 'Other' category, Cargill normally has had approximately 11% - 12% market share.

Financial Distress

In 1999, SWP market share fell from 30% to 26%[17], which produced a significant reduction in earnings before interest, taxes and depreciation/amortization (EBITDA) for the grain handling segment. While the EBITDA for the agri-products and food processing segments held firm, both the livestock marketing and

[17] The biggest reason for this decline was volume reductions due to the lowest CWB export program in 24 years and low spring wheat supplies.

publishing segments also declined. This was happening at a time when the company was expanding, which meant both depreciation and interest expenses were increasing significantly. A drop in EBITDA combined with increasing depreciation and interest was a lethal combination, which produced a net loss in 1999 in the amount of $12.9 million. SWP share price, which had reached a euphoric high of $24.40 in 1998, closed at $8.60 in 1999, which meant that SWP members who had not sold their shares were seeing their equity eroded. The writing was on the wall for Mr. Loewen, who resigned in June 1999, one month before fiscal year-end. William Hunt, executive vice-president, took over as interim CEO.

In 2000, there were significant changes made to the management team of SWP. Mayo Schmidt, formerly president of Con Agra Grain Canada (Con Agra is a large U.S. agri-food company), was hired as the new CEO. Marvin Wiens, a long-time SWP member, replaced Leroy Larsen as President and Chairman of the Board. The board consisted of 16 farmers who represented the class A voting shareholders, who also were farmers. In 2000, the board was reduced to 12 farmers with the addition of two advisors; Dallas Howe, CEO of Advanced Data Systems with experience in management information systems and Douglas Kitchen, Managing Director of Rosenthal Collins, with experience in commodity and livestock futures trading and the food processing industry.

In 2000, the financial crunch really hit home. SWP revenues and EBITDA declined again, while both interest and depreciation expenses increased significantly. Market share fell further to 24%, and the overall net loss was $90.7 million[18]. The share price closed at a depressing $3.55. In the 2000 annual report, Mayo Schmidt stated "Our new direction includes a much sharper focus on the Pool's core business …". He also stated that "Although it was a tough year for the entire Canadian grain industry, the Pool suffered more than most due to a lack of operational discipline."[19] Mr. Schmidt's job was to return SWP to a focused and efficiently run company, to a positive earnings and cash flow position and restore shareholder value. At the end of fiscal 2000, this appeared to be an enormous task.

The return to core business strategy included selling off assets that were not part of the core – grain handling and agri-products (inputs such as seed, fertilizers, and chemicals). From 2000 to 2003, a large number of assets were sold, which allowed SWP to reduce their long-term debt. In 2000, asset sales included Robin's Foods, Europort, and dissolution of SWP Matrix. As well, many small town wooden elevators were closed as more concrete elevators came on-line, which increased SWP's grain handling operational efficiency. The Pool wanted to increase grain transportation to maximum efficiency with its high throughput elevators, which had 100-rail car loading capacities, attracting significant rail freight incentives. Mr. Schmidt also reduced SWP's labour force, eliminating 75 management positions and

[18] Of this loss, $54 million was one-time provisions.
[19] Saskatchewan Wheat Pool Annual Report 2000, p 7.

over 200 operational employees. Clearly, SWP was in financial distress and Mayo Schmidt's job was to save this company.

By the end of 2000, SWP was down to 261 elevators, from 500 in 1996. Their western Canadian market share had slipped from 30% to 24% over the same time period. Kevin Hursh, a well-known agricultural consultant in Saskatchewan, commented on the elevator closures; "And the announcement of another 63 elevator closures isn't going to help the Pool's image with farmers. When you close a community's elevator, it's like setting the grain free. There's no longer much loyalty."[20] The implication was that the Pool's strategy to increase efficiency by closing high-cost wooden elevators had a significant impact on market share. The Pool had no choice but to increase grain handling cost efficiency, and they were doing that. In the past, loyalty to the Pool was almost religious but after going public (many farmers did not see SWP as a co-op anymore) and closing local elevators, many farmers were simply looking to whoever gave the best service and prices. Hence, as the competition increased, SWP's market share declined.

In 2001, although market share continued to decline (to 21%), it appeared that the increased efficiencies might be paying off. EBITDA increased in every segment and it was looking as if the Pool might recover.[21] However, interest expenses were taking their toll, as total debt peaked at $1.08 billion, with total assets of $1.5 billion. SWP was dangerously over-leveraged. Mayo Schmidt did not veer from his plan to return SWP to its core business. In 2001, XCAN Grain and Premium Brands were sold. More elevators were closed, reducing the total number to 79, in the drive for cost efficiency. SWP ended the fiscal year with a net loss of $44.1 million ($17.2 million loss before provisions) and a share price of $2.84. SWP needed to grow its earnings significantly and, since many of its costs were fixed, it was possible to grow out of trouble. This required an increase in grain production and deliveries in western Canada and an increase in SWP's market share. SWP needed good weather, good crops, and a return of farmer customers that had been lost to competitors.

2002 turned out to be one of the worst drought years in western Canadian history.[22] Grain production declined, as did handling volumes. The drought also had a negative impact on the agri-products segment as farmers applied less fertilizer and chemicals to their crops. In January 2002, SWP announced a new joint program with Farm Credit Canada (FCC) for providing credit to their farmer customers. Previously, SWP had allowed farmers to purchase inputs on credit in the spring, to be paid back after harvest in the fall. This arrangement was expensive for SWP as

[20] Kevin Hursh, "Dark days for once-mighty pool", Saskatoon Star Phoenix, March 8, 2000.
[21] Based on: Karen Briere, "Pool almost out of woods", The Western Producer, March 22, 2001 and "Wheat pool inches toward profitability", Saskatoon Star Phoenix, June 13, 2001.
[22] The biggest impact was on grain production in the 2002-03 crop year although the 2001-02 crop year was also significantly affected.

it had to finance the receivables for six months. With the new arrangement, farmers purchasing from SWP could get a short-term line of credit from FCC to finance the inputs. This meant SWP could reduce its receivables by $200 million and the FCC program had the lowest interest cost in the industry.

Mayo Schmidt continued with an aggressive divestment strategy by selling Heartland Livestock Services, Heartland Feeds (still had one feed mill in North Battleford), Western Producer Publications, CSP Food Division, land in a joint venture, Pound-maker Agventures, CanAmera Foods and Commercializadora in Mexico was written off. Fiscal 2002 ended (July 31, 2002) with a net loss of $92.1 million ($50 million in provisions) and a SWP share price of $1.83.

In the fall of 2002, farmers harvested the worst crop anyone could remember and to make matters worse, approximately 30% of the crop could not be harvested until the following spring, due to poor weather conditions. Grain production and deliveries fell even further, the worst levels since the 1930's. The continued high fixed costs and declining revenues took their toll. By January 2003, SWP had run out of cash and, without debt restructuring, would have to declare bankruptcy. Mayo Schmidt approached debt holders with a plan to restructure, saying "It is essential that we have the time and the necessary funding in place to allow the company to deal with the severe impact of two consecutive drought years, which to some extent will likely continue to be felt for the next two fiscal periods."[23]

Financial Restructuring

Mayo Schmidt's initial proposal to debt holders was acceptable to the banks but a committee representing 42% of the medium term note holders (bondholders), including institutional investors such as Great-West Life and Canada Life, rejected the plan saying it was too much in favour of the banks. At a January 17, 2003 meeting of bondholders, Mr. Schmidt said, "If the proposal is not approved on the 31st [January 31, 2003] we'll be in default of our credit agreements and not entitled to further credit availability."[24]

On Tuesday, February 4, 2003, the bondholders voted on a revised plan and it passed with 85% in favour. The revised bondholder restructuring plan included the following:

[23] "Wheat Pool restructures", Saskatoon Star Phoenix, January 4, 2003.
[24] Karen Briere, "Pool says restructuring critical", The Western Producer, January 23, 2003.

For each Medium Term Note (Bond)

$1,000 Principal

$629.63
Convertible Subordinated Notes

- Accrue interest at 9%/year, payable in cash at maturity July 31, 2008 (if certain income tests are met, interest may be payable prior to maturity)
- Holder has the right to convert to Class B non-voting shares at a rate of 2,227.2 shares per $1,000 of note principal, prior to maturity
- At maturity, SWP has the option to convert to voting common shares that represent 90% of the outstanding shares of such class, provided that any conversions by holders of such notes into Class B shares prior to maturity proportionately reduces this ratio

$370.37
Senior Subordinated Notes

- Accrues interest at 8%/year until July 31, 2005, after which it accrues interest at 12%/year until maturity at July 31, 2008
- Proceeds in excess of $10 million of sales of any non-core SWP assets must be used to pay down principal prior to maturity

Extra Incentive: each $1,000 of note holder principal receives 56.637128 Class B non-voting shares at the date of restructuring.[25]

The debt restructuring plan provided some breathing room for SWP. David Schroeder, analyst with Dominion Bond Rating Services, said "Long-term, the company is facing challenges, but this sets their financing in order and gives them flexibility to continue to improve results. Whenever a company is facing the challenges that Saskatchewan is, the one thing that you definitely need is time. The alternative to this solution most likely would have been bankruptcy …"[26] SWP's 1700 employees were also very much relieved and more optimistic about the future. Hugh Wagner from the Grain Services Union, which represents over 1,000 SWP employees, said "You can imagine the uncertainty that prevailed in the work force last week and over the weekend. That cloud has certainly been lifted and it's much more optimistic."[27]

[25] For more information on the structure of the debt, see the 2003 notes to the financial statements.
[26] Tim Cook, "Pool escapes bankruptcy threat", Saskatoon Star Phoenix, February 5, 2003.
[27] Ibid

Part of the restructuring deal was a requirement for SWP to change its corporate governance structure. The new board of directors consists of 8 farmers and 4 external directors with corporate and management expertise required for the turn around at SWP. Marvin Wiens, farmer, remained as chairman of the board. The four appointed external directors were:

- Herb Pinder Jr., President of Goal Group of Companies, a non-practicing lawyer, holds an MBA from Harvard Business School.
- Harold Milavsky, Chairman and Director of Quantico Capital Corporation and former Chairman and CEO of Trizec Corporation, also is a Chartered Accountant.
- Gary Colter, President of CRS Inc., a corporate restructuring and strategy management consulting firm based in Toronto, had a 34-year career with KPMG and is a graduate of Ivey School of Business.
- Douglas Kitchen, managing director of Rosenthal Collins, futures clearing and execution firm and foreign exchange dealer in Chicago.

SWP also asked for and received permission from the Saskatchewan government to remove the 10% maximum limit on Class B share ownership from "The Saskatchewan Wheat Pool Act" and move it into the Pool's bylaws, so that in the future, if desirable, the Pool could alter the limit without legislative approval.

The 2003 fiscal year ended on a positive note with a profit in the fourth quarter. However, for the year the net loss was $50.3 million and the share price closed at 37 cents, a far cry from the peak of almost $25. The challenges ahead for Mayo Schmidt were significant and he said in the 2003 annual report, "Our financial restructuring has set the foundation for future growth. Fiscal 2004 will be a recovery year…. Cash flow will recover and we will work hard to drive market share increases by focusing on our priorities."[28]

[28] Saskatchewan Wheat Pool 2003 Annual Report, p. 4

Appendix A: Saskatchewan Wheat Pool Financial Statements 1996 – 2003

Saskatchewan Wheat Pool
Consolidated Statements of Earnings

For the year ended July 31 (in thousands)		**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Sales, Operating Revenues		3,959,401	4,229,325	4,168,648	3,594,657	3,326,956	3,302,658	2,781,292	1,918,095
Cost of Sales & Op Exp		3,694,242	3,954,254	3,918,486	3,387,239	3,136,145	3,055,066	2,632,068	1,852,144
Selling & Admin Expenses		106,317	116,642	123,852	121,021	108,814	102,247	76,526	51,723
Depreciation & Amortization		39,797	44,020	44,721	63,647	77,007	75,723	70,937	38,366
Loss on Disposals	1	-	6,195	19,400	-	33,400	20,065	17,606	-
Securitization Expenses		1,712	8,971	10,897	11,814	11,916	21,382	7,796	3,016
Restructuring & Impairment	2	-	-	-	9,532	36,014	13,323	54,360	-
		3,842,068	4,130,082	4,117,356	3,593,253	3,403,296	3,287,806	2,859,293	1,945,249
Equity Earnings		-	1,475	(1,326)	2,181	(1,159)	2,759	114	-
Non-controlling Interest		(82)	(210)	(326)	51	232	(487)	867	1,286
Earnings before Interest & Taxes		117,251	100,508	49,640	3,636	(77,267)	17,124	(77,020)	(25,868)
Interest Expense		30,386	14,590	20,414	25,078	46,544	65,059	57,761	47,457
Earnings (Loss) before Corp Taxes		86,865	85,918	29,226	(21,442)	(123,811)	(47,935)	(134,781)	(73,325)
Corporate Taxes		38,510	38,628	12,941	(8,544)	(33,107)	(3,837)	(42,622)	(22,980)
Net Earnings (Loss)		**48,355**	**47,290**	**16,285**	**(12,898)**	**(90,704)**	**(44,098)**	**(92,159)**	**(50,345)**

Saskatchewan Wheat Pool
Consolidated Balance Sheets

As at July 31 (in thousands)		**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Assets									
Current Assets									
Short-term Investments		34,840	62,568	17,690	10,934	-	50,477	27,132	47,984
Accounts Receivable	3	365,291	362,388	302,502	253,196	243,915	241,410	127,132	222,137
Inventories	4	286,053	327,290	326,664	264,852	263,623	271,920	191,843	115,972
Prepaid Expenses		14,627	9,550	13,512	13,375	16,770	13,055	10,235	9,973
Future Income Taxes		-	-	-	-	-	-	-	1,624
		700,811	761,796	660,368	542,357	524,308	576,862	356,342	397,690
Non-current Assets									
Investments		15,008	41,914	77,158	89,603	76,342	13,838	10,275	5,020
Prop, Plant, Equipment	5	411,106	446,503	646,789	865,849	851,398	797,951	638,417	291,603
Other Long-term Assets		19,787	39,065	126,279	138,589	129,358	186,485	202,346	89,692
Total Assets		**1,146,712**	**1,289,278**	**1,510,594**	**1,636,398**	**1,581,406**	**1,575,136**	**1,207,380**	**784,005**
Liabilities and Shareholders' Equity									
Current Liabilities									
Bank Indebtedness		-	-	7,794	8,041	9,198	32,239	30,952	28,192
Short-term Borrowings		113,396	79,835	158,840	86,742	134,000	8,080	2,967	92,920
Members' Demand Loans		101,479	90,260	84,040	71,745	48,834	35,204	24,624	10,956
Accounts Payable		333,866	351,483	295,387	280,472	244,536	216,890	207,970	163,177
LT Debt due in one year		14,797	11,995	13,251	14,077	16,178	156,514	17,321	7,810
Dividends Payable		4,436	11,829	14,969	14,970	-	-	-	-
		567,974	545,402	574,281	476,047	452,746	448,927	283,834	303,055
Long-term Debt	6	81,080	202,165	214,877	468,638	534,269	549,225	456,224	265,754
Other LT Liabilities		26,950	35,374	51,113	48,381	52,044	75,685	62,766	52,420
Non-controlling Interest		1,470	1,680	4,242	5,074	4,740	5,863	1,286	-
		677,474	784,621	844,513	998,140	1,043,799	1,079,700	804,110	621,229
Shareholders' Equity									
Share Capital	7	297,621	297,579	457,687	457,732	457,712	457,699	457,692	59,501
Convertible Sub Notes	8	-	-	-	-	-	-	-	130,663
Retained Earnings (Deficit)		171,617	207,078	208,394	180,526	79,895	37,737	(54,422)	(27,388)
		469,238	504,657	666,081	638,258	537,607	495,436	403,270	162,776
		1,146,712	**1,289,278**	**1,510,594**	**1,636,398**	**1,581,406**	**1,575,136**	**1,207,380**	**784,005**

Saskatchewan Wheat Pool
Consolidated Statements of Cash Flows

For the year ended July 31 (in thousands)	1996	1997	1998	1999	2000	2001	2002	2003
Cash from (used in) Operating Activities								
Net Earnings (Loss)	48,355	47,290	16,285	(12,898)	(90,704)	(44,098)	(92,159)	(50,345)
Non-cash items	54,500	52,608	63,171	60,425	146,424	86,296	88,833	25,797
Cash from Operations	102,855	99,898	79,456	47,527	55,720	42,198	(3,326)	(24,548)
Changes in Working Capital								
Accounts Receivable	81,903	(1,913)	72,923	47,555	(17,017)	(22,522)	65,895	(13,376)
Inventories	19,887	(40,572)	7,886	64,060	(8,587)	(12,548)	23,907	90,915
Accounts Payable	109,920	16,507	(104,131)	(12,682)	(11,927)	(20,295)	(24,303)	(48,120)
Prepaid Expenses	(6,792)	9,140	(2,953)	287	(3,541)	3,624	2,412	(2,531)
	204,918	(16,838)	(26,275)	99,220	(41,072)	(51,741)	67,911	26,888
Cash from (used in) Financing								
Change in Long-term Debt	(17,441)	118,127	3,320	256,870	69,234	157,194	(226,233)	56,261
Change in Short-term Debt	(16,812)	-	115,827	(84,754)	24,347	(147,128)	(10,715)	(39,812)
Dividends	(4,436)	(11,829)	(11,829)	(14,969)	(14,970)	-	-	-
Minority Interests	(100)	-	2,236	883	(102)	129	-	-
Change in Share Capital	(1,569)	(42)	111,016	45	(20)	(13)	(7)	-
	(40,358)	106,256	220,570	158,075	78,489	10,182	(236,955)	16,449
Cash from (used in) Investment								
Prop, Plant & Equipment	(78,155)	(81,084)	(194,070)	(286,157)	(114,538)	(31,721)	(863)	(9,026)
Divestitures	(2,183)	(46,308)	(95,009)	(25,668)	9,310	53,518	156,175	13,362
	(80,338)	(127,392)	(289,079)	(311,825)	(105,228)	21,797	155,312	4,336
Increase (Decrease) in Cash	187,077	61,924	(15,328)	(7,003)	(12,091)	22,436	(17,058)	23,125

Notes to Financial Statements (all figures in thousands, unless otherwise stated)

Note 1: Gains (Losses) on Disposals

Year	Asset	Proceeds of Disposal	Gain (Loss)
1996	none	0	0
1997	Provision for closure of elevators	0	(6,195)
1998	Provision for closure of elevators	0	(19,400)
1999	none	0	0
2000	Robin's Foods Inc.	7,200	4,500
	Europort Inc. (Poland)	10,500	(37,900)
	Pinnacle Farms Ltd.	2,800	0
2001	XCAN Grain Pool Ltd.	11,000	0
	Premium Brands Inc.	41,300	(20,065)
2002	Heartland Livestock Services	23,548	(5,283)
	Heartland Feeds	11,221	12,750
	Western Producer Publications	11,571	(11,034)
	CSP Foods Division	34,569	21,579
	Sale of Land in Joint Venture	9,296	(7,818)
	CanAmera Foods	58,417	7,412
	Premium Brands	5,000	0

Note 2: Restructuring and Provisions

Year	Restructuring and/or Provision	Amount
1999	Provision for dissolution of SWP Matrix	4,180
	Restructuring of CSP's eastern facilities	5,352
2000	Corporate restructuring	28,229
	Provision for dissolution of SWP Matrix	6,892
	Provision for impairment of value of Agro Pacific Industries	5,091
	Reduction in joint venture's provision	(4,197)
2001	Corporate restructuring	13,323
2002	Corporate restructuring	29,760
	Impairment of Value in Commercializadora La Junta	24,600

Note 3: Accounts Receivable

Year	Trade Accts	CWB	Taxes	Other	Total
1996	269,460	85,247	0	0	354,707
1997	288,844	73,544	0	0	362,388
1998	243,072	59,430	0	0	302,502
1999	211,741	28,861	12,594	0	253,196
2000	176,074	23,911	43,930	0	243,915
2001	189,038	23,645	28,727	0	241,410
2002	95,722	21,334	10,076	0	127,132
2003	79,641	137,624	0	4,872	222,137

Note 4: Inventories

Year	Grain	Inputs	Processing	Livestock	Other	Total
1996	136,143	71,785	0	0	78,125	286,053
1997	141,912	90,187	0	0	95,191	327,290
1998	97,673	124,750	0	0	104,241	326,664
1999	66,853	104,068	74,869	6,152	12,910	264,852
2000	69,021	92,656	72,108	23,980	5,858	263,623
2001	68,682	99,961	73,426	28,021	1,830	271,920
2002	82,412	74,618	16,890	17,155	768	191,843
2003	37,461	51,231	14,410	0	12,870	115,972

Note 5: Property, Plant and Equipment

Year	Cost of Assets	Accumulated Depreciation	Net Book Value
1996			411,106
1997	915,242	468,739	446,503
1998	1,164,220	517,431	646,789
1999	1,425,167	559,318	865,849
2000	1,477,812	626,414	851,398
2001	1,459,949	661,998	797,951
2002	1,172,839	534,422	638,417
2003	303,973	12,370	291,603

Note 6a: Long-term Debt (note: total includes current portion)

Year	Term Loans	Medium Term Notes	Members' Loans	Other (subsidiaries)	Total
1996	40,900	0	11,173	43,824	95,877
1997	0	150,000	7,878	56,282	214,160
1998	0	150,000	6,880	71,248	228,128
1999	100,000	300,000	10,567	72,146	482,715
2000	168,000	300,000	10,993	71,454	550,447
2001	344,100	300,000	9,059	52,580	705,739
2002	127,200	300,000	9,669	36,676	473,545

Note 6b: For 2003:

Debt Instrument	Interest Rate	Value
Senior Secured Bank Term Loan [a]	8.00%	90,600
Senior Subordinated Notes [b]	8.00%	125,491
Convertible Subordinated Notes (debt portion) [c]	9.00%	23,935
Members' Term Loans	7.03%	4,676
Other (subsidiaries)	6.11%	28,862
Total Long-term Debt (current portion included)		273,564

[a] Senior secured bank term loan – fair market value is equal to carrying value, balloon principal payment is due July 31, 2008.

[b] Senior subordinated notes – prior to July 31, 2005, interest is at 8.0%; thereafter interest is at 12%; no principal payments are required until Nov 29, 2008; the company may redeem the notes prior to maturity at a premium ranging from 106% prior to Jan 1, 2005 to 101% after Dec 31, 2006; secured by a second charge against company assets.

[c] Convertible subordinated notes – no interest payment required until July 31, 2005. Interest may become payable after fiscal years 2006 – 2008 provided that certain EBITDA tests are met. Secured by a third ranking charge against company assets. These notes are convertible by the holder to Class B non-voting shares at the rate of 2,227.2 shares per $1,000 of note principal (approximately $.45 per share) at any time prior to Nov 30, 2008. On Nov 30, 2008, the company has the right to convert the notes into shares of a single class of voting common shares that represent 90% of the outstanding shares of such class, provided that any conversions by holders of such notes into Class B shares prior to maturity proportionately reduces this ratio. In accordance with GAAP, the debt component of the

notes is estimated as the present value of the cash interest expected to be paid for fiscal 2006 – 2008. The remainder is reflected as equity. During the six months ended January 31, 2004, $70 million face value of 9% notes were converted at the holders' option into 111,744 Class B shares, leaving $204.8 million of face value outstanding. The fair market value of convertible subordinated notes at July 31, 2003, was approximately $159.8 million.

Note 7a: Share Capital (Book Value in $ 000's)

	Class A Shares		Class B Shares	
Year	Number of Shares	Book Value	Number of Shares	Book Value
1996	75,923	1,898	29,572,250	295,723
1997	74,256	1,856	29,572,250	295,723
1998	74,291	1,857	37,421,320	455,830
1999	73,902	1,848	37,425,219	455,884
2000	73,106	1,828	37,425,219	455,884
2001	72,614	1,815	37,425,219	455,884
2002	72,328	1,808	37,425,219	455,884

For 2003:

Beginning in 2003, Class A shares are listed on the balance sheet as a short-term liability, included with Members' Demand Loans in amount $1.791 million.

Note 7b: Class B Shares

	Number of Shares (000's)	$ Amount ($ 000's)
Balance at July 31, 2002	37,425	455,884
Issued during period	-	-
Balance at January 31, 2003 – pre-reorganization	37,425	455,884
Issued as part of restructuring	22,938	8,487
Fair Value Adjustments	-	(442,036)
Balance at January 31, 2003 – post-reorganization	60,363	22,335
Notes converted to Class B Shares	111,744	37,082
Balance at July 31, 2003	172,107	59,417

Note 8: Convertible Subordinated Notes – Equity Component

The company issued $255 million of convertible subordinated notes as part of the January 31, 2003 financial restructuring. This represents the equity component of the notes.

Financial Reorganization and Basis of Presentation

On October 24, 2002, the company announced its intention to fund its long-term business plan by restructuring its senior secured debt and obtaining new credit facilities. The company has accounted for the financial reorganization by using principles of comprehensive revaluation (fresh start accounting) as required under Canadian Generally Accepted Accounting Principles. The company has used an effective date of January 31, 2003 for 'Fresh Start'. Fresh Start accounting necessitated the revaluation of all assets and liabilities of the company at estimated fair values and the elimination of the company's deficit. The following assets and liabilities required restatement to fair values:

a. property, plant and equipment restated to fair value;
b. goodwill and pre-operating costs to nil;
c. pensions and employee future benefits plan determined by an independent actuary;
d. senior subordinated notes at current trading value;
e. debt component of convertible subordinated notes at present value of estimated interest payments associated with 2006 – 2008 fiscal years;
f. future income taxes at amounts likely to be realized over periods not exceeding 5 years;
g. unamortized portion of costs associated with current and prior lending arrangements reflected as long term costs to nil;
h. unamortized portion of the costs associated with prior lending arrangements reflected as prepaid expenses to nil;
i. costs of restructuring written off;
j. agri-products equipment inventory at selling prices less disposal costs;
k. an equity value of $178.6 million was calculated for Fresh Start.

Table 8: Summary Information and Ratios (in thousands except ratios and share financial information)

Year	1996	1997	1998	1999	2000	2001	2002	2003
Sales	3,959,401	4,229,325	4,168,648	3,594,657	3,326,956	3,302,658	2,781,292	1,918,095
EBITDA	155,857	156,718	128,034	87,108	81,070	147,617	73,679	15,514
EBIT	116,060	112,698	83,313	23,461	4,063	71,894	2,742	(22,852)
Interest	30,386	14,590	20,414	25,078	46,544	65,059	57,761	47,457
Net Earn	46,700	45,594	18,209	(13,765)	(90,704)	(44,098)	(92,159)	(50,345)
Work Cap	128,287	210,138	81,755	61,112	71,562	127,935	72,508	94,635
Cap Assets	411,106	446,503	646,789	865,849	851,398	797,951	638,417	386,315
Total Assets	1,142,153	1,283,022	1,506,262	1,631,200	1,581,406	1,575,136	1,207,380	784,005
LT Debt	81,080	202,165	214,877	468,638	534,269	549,225	456,224	265,754
Op CF	99,952	96,922	82,832	46,006	55,720	42,198	(3,326)	(24,548)
Cap Exp	75,175	71,451	183,286	270,524	114,170	23,132	12,389	5,783
Curr Ratio	1.23	1.39	1.14	1.13	1.16	1.28	1.26	1.31
Debt Ratio	59.1%	60.9%	55.9%	61.0%	66.0%	68.5%	66.6%	79.2%
For Class B Shares								
EPS	1.58	1.54	.49	(.37)	(2.42)	(1.18)	(2.46)	(1.41)
# of Shares	29.572	29.572	37.421	37.425	37.425	37.425	37.425	172,107
High	16.40	20.95	24.40	17.00	10.20	5.00	2.90	1.83
Low	13.13	14.00	16.00	7.90	3.20	2.05	1.71	.18
Close	14.20	16.20	17.00	8.60	3.55	2.84	1.83	.37
PE Ratio	8.99	10.51	34.94	(23.38)	(1.46)	(2.41)	(.74)	(.26)
BV/share	15.65	16.79	17.63	16.87	14.32	13.19	10.73	4.55
Div/share	.15	.40	.40	.40	0	0	0	0
ROE	18.3%	16.9%	7.4%	(47.1%)	(58.7%)	(20.0%)	(35.6%)	(79.8%)
Grain Volume (million tones)								
Primary	9.3	11.0	10.5	8.2	8.5	8.3	7.3	4.8
Port	6.2	7.6	7.5	5.3	5.7	5.5	4.0	2.4
# elevators	500	462	447	385	261	79	79	79
# farm supp	26	30	30	40	48	125	123	100

Appenidix B: Additional Company and Industry Information

Saskatchewan Wheat Pool Assets [29]

SWP asset acquisitions and dispersals is illustrated for two time periods: 1996–1999 and 2000–2003. The 1996-1999 column illustrates the assets owned and acquired during that period. The 2000-2003 column illustrates which assets were sold after 1999 and the assets that remained at July 31, 2003.

A further description of SWP assets and investments follows.

[29] This information is derived from a SWP webpage: http://www.swp.com/associated (web site no longer available) , The Saskatoon Star Phoenix: "Sask Pool's leaner look", February 15, 2002, and SWP Annual Reports, 1997 – 2003.

SWP Asset/Investment	1996-1999	2000-2003
AgPro Grain	100.0%	100.0%
Agro Pacific Industries Ltd.	40%	Wrote down April 2000
Canadian Pool Agencies Ltd.	33.3%	50.0%
CSP Foods Division	100%	Sold February 2002
CanAmera Foods	33.0%	Sold April 2002
CanGro Processors	100%	Sold Part November 2001 (still operates aquaculture)
Can-Oat Group Inc.	100%	100%
Commercializadora La Junta, Mexico	50.0%	Written off in 2002
Europort Inc., Poland	53.1%	Sold May 2000
Fletcher's Fine Foods (Premium Brands)	44%	Sold July 2001
Heartland Livestock Services	89.8%	Sold August 2001
Heartland Feeds	100%	Sold Part November 2001 (still one mill in North Battleford)
Heartland Pork Group	75.9%	89.8%
Lloydminster Pool Joint Venture	50.0%	50%
Pacific Elevators Ltd.	30.0%	Sold in 2002
Pinnacle Farms Ltd.	40.0%	Sold July 2000
Pool Insurance Company	50.0%	50%
Pound-Maker Agventures Ltd.	20.9%	Sold January 2002
Prairie Malt Limited	42.4%	42.4%
Regina Seed Processors Ltd.	26.5%	26.5%
Robin's Foods Inc.	35.0%	Sold March 2000
Saskatoon Livestock Sales Ltd.	22.5%	Sold January 2002
SWP Matrix Limited	50.0%	Closed January 2001
Western Co-operative Fertilizers Ltd.	33.3%	50%
Western Pool Terminals Ltd.	30.0%	Sold in 2002
XCAN Grain Pool Ltd.	33.3%	Sold January 2001

Source: Saskatchewan Wheat Pool Annual Reports, 1997 to 2003.

Grain Handling and Marketing

1. AgPro Grain – handles, processes and markets grain at terminals in Saskatchewan, Manitoba and Alberta. 100% owned
2. XCAN Grain Pool Ltd. – major exporter of all non – CWB grains and oilseeds, specialty crops and malt barley. XCAN has offices in Winnipeg, Tokyo, London, Hong Kong and Warsaw. 33.3% owned. Sold in January, 2001.

3. SWP Matrix Ltd. – commodity trading and operating company located in Newark, England with subsidiary companies in Central Europe and the Commonwealth of Independent States. 50% owned. Sold in January, 2001.
4. Comercializadora la Junta – 60,000 tonne grain terminal in Manzanillo, Mexico, which opened in June, 1999. 58% owned. Written off in 2002.
5. Europort Inc. – joint venture to construct and manage an export/import terminal in Gdansk, Poland. Construction was completed in early 2000. 53% owned. Sold in May 2000.
6. Pacific Elevators Ltd. – operates a terminal elevator in Vancouver. 30% owned. Sold in 2002.
7. Prince Rupert Grain Ltd. – operates a grain terminal at Prince Rupert, British Columbia. 36.8% owned.
8. Lakeside Processors Ltd. – processes peas, lentils and other export bound crops at Dafoe, Saskatchewan. 35% owned.

Farm Supplies

1. Interprovincial Co-operatives Ltd. – co-ordinates purchases of farm supplies for member organizations including SWP, operates a chemical formulation plant and owns and controls the Co-op trademark. 36.9% owned.
2. Western Co-operative Fertilizers Ltd. – major wholesaler of fertilizer in western Canada. It operates three fertilizer storage terminals in western Canada and owns 34% of Canadian Fertilizers Ltd., which is a major Canadian nitrogen fertilizer manufacturer. 50% owned.
3. Regina Seed Processors – specialty crops are processed and shipped out from the plant at Richardson, Saskatchewan. 26.5% owned.

Agri-Food Processing

1. CSP Foods – one of Canada's largest full-line bakery supply manufacturers, offering a complete line of bakery mixes and other supplies for bakeries. CSP is a major supplier to Robin's Foods Inc. the second largest donut chain in Canada. 100% owned. Sold February 2002.
2. CanAmera Foods – Canada's largest oilseed crushing and refining company. Head office is in Oakville, Ontario with plants in Harrowby, Nipawin, Altona and Fort Saskatchewan. 33.3% owned. Sold May 2002.
3. Prairie Malt Limited – located at Biggar, Saskatchewan and is one of the world's largest single-site malting operating. 42.4% owned.
4. Premium Brands Foods (originally Fletcher's Fine Foods) – operates meat processing plants located in western Canada and western United States. 45% owned. Sold July 2001.
5. Robin's Foods Inc. – Robin's Donuts has over 220 outlets in Canada where they serve deli items, desserts and their special blend of coffee. 35% owned. Sold March 2000.

6. Can-Oat Milling – the largest processor and exporter of oat products in Canada, headquartered in Portage la Prairie, Manitoba and operates a groating mill near Saskatoon, Sk. 100% owned.
7. Pound-Maker Agventures Ltd. – integrated feedlot and ethanol plant located near Lanigan, Sk. 22% owned. Sold January 2002.
8. Humboldt Flour Mills – specialty crop processor, specializing in mustard. 100% owned. Dissolved September 1998. Some assets were combined with SWP's organic flour mill.

Livestock Marketing

1. Heartland Livestock Services – offers a complete range of livestock marketing services in Saskatchewan, Alberta and Manitoba. 89.8% owned. Sold August 2001.
2. Heartland Pork Management Services – owns and operates seven hog plants in Saskatchewan. 100% owned.
3. Heartland Feeds – produces feed products for the livestock industry. 100% owned. Some Assets Sold November 2001. (flour mills and merchandising operations were sold)
4. CanGro Processors Ltd. – produces feed products for the livestock industry. Includes Western Feeds, Hillcrest Farms Ltd., Taber Feeds, Agro Pacific Industries, and a processing facility in North Battleford, Sk. 100% owned. Some Assets Sold November 2001. (still maintains an aquaculture operation at Lake Diefenbaker)
5. Medicine Hat Feeding Co. - produces fed products for the livestock industry. 49% owned. Sold January 2002.
6. Pinnacle Swine Inc. – hog producer. 40% owned. Sold July 2000.
7. Saskatoon Livestock Sales Ltd. – 22.5% owned. Sold January 2002.

Publishing and Other

1. The Western Producer – the most widely read subscription agriculture weekly newspaper in Canada. 100% owned. Sold January 2002.
2. Canadian Pool Agencies Ltd. – provides property insurance and agency services. 50.0% owned.

Industry Data

Table 1: Total Western Canadian Grain Deliveries to Primary Elevators (1995-96 to 2002-03) Volumes are in 000's tones

Crop Year	Total Western Canadian Deliveries	SWP	UGG	Agricore/AU	Others
1995-96	30,831	9,300	5,144	8,134	8,253
		30%	17%	26%	27%
1996-97	36,056	11,177	5,376	8,925	10,578
		31%	15%	25%	29%
1997-98	32,113	9,634	4,986	8,552	8,941
		30%	16%	27%	28%
1998-99	29,692	7,720	4,455	7,738	9,779
		26%	15%	26%	33%
1999-00	33,880	8,131	4,932	8,153	12,664
		24%	15%	24%	37%
2000-01	33,322	6,998	4,844	7,839	13,641
		21%	15%	24%	41%
2001-02	25,371	5,835		9,000	10,536
		23%		35%	42%
2002-03	20,854	4,323		7,411	8,850
	Projected	21%		36%	43%

Sources: Canadian Grain Commission, SWP, UGG, Agricore, and AU annual reports
Note: SWP stated deliveries do not match exactly with those stated in Table 1. In Table 1, SWP deliveries are estimated by taking the stated market shares from the SWP annual reports and applying them to the total grain deliveries for Western Canada for each year.

Table 2: Grain Production and Grain Deliveries in Western Canada (1995-96 to 2002-03)

		Grain Production (000's tones)		
Year	Alberta	Sask	Manitoba	Grain Production
1995-96	17,521	21,138	7,042	45,701
1996-97	18,171	27,091	9,037	54,298
1997-98	16,877	22,250	7,737	46,863
1998-99	16,356	22,735	8,151	47,242
1999-00	18,731	25,172	7,283	51,186
2000-01	16,498	24,083	8,672	49,253
2001-02	13,870	17,129	6,735	37,734
2002-03	7,826	12,346	7,228	27,399
		Grain Deliveries (000's tones)		
Year	Alberta	Sask	Manitoba	Grain Deliveries
1995-96	10,154	15,873	4,805	30,831
1996-97	10,199	19,619	6,239	36,056
1997-98	9,234	17,482	5,397	32,113
1998-99	8,728	15,502	5,463	29,692
1999-00	10,923	17,417	5,540	33,880
2000-01	9,203	17,460	6,658	33,322
2001-02	6,965	13,230	5,176	25,371
2002-03	4,940	9,469	6,175	20,584
		Grain Deliveries as a % of Grain Production		
Year	Alberta	Sask	Manitoba	Total
1995-96	58%	75%	68%	67%
1996-97	56%	72%	69%	66%
1997-98	55%	79%	70%	69%
1998-99	53%	68%	67%	63%
1999-00	58%	69%	76%	66%
2000-01	56%	73%	77%	68%
2001-02	50%	77%	77%	67%
2002-03	63%	77%	85%	75%

Sources: Canadian Grain Commission and Provincial Departments of Agriculture in Alberta, Saskatchewan and Manitoba

Table 3: Number of Country Grain Elevators in Western Canada

Year	Total	SWP	UGG	Agricore/AU
1997	1,147	462	152	
1998	1,052	447	145	
1999	969	385	128	
2000	842	261	102	
2001	621	79	84	70
2002	419	79		98
2003		54*		88

Sources: SWP, UGG, AU annual reports
* Consists of 43 high-throughput grain handling facilities and 11 seed cleaning and specialty plants

Table 4: United Grain Growers (1996-2001) and Agricore United (2002-03) Financial Summary (in thousands except ratios and share financial information)

Year	1996	1997	1998	1999	2000	2001	2002	2003
EBITDA	40,198	55,390	60,899	42,897	48,821	64,073	74,725	100,531
Net Earnings	5,851	9,059	16,332	3,575	2,183	11,746	(17,516)	(2,384)
Op CF	21,322	32,770	35,871	29,852	28,956	39,932	22,070	60,342
Work Cap	71,557	101,790	136,155	119,249	70,891	68,106	177,140	176,796
Total Assets	502,732	470,016	499,412	544,480	599,431	603,282	1,588,531	1,591,983
Total Debt	217,741	115,992	99,581	165,578	217,069	211,042	1,076,628	1,010,315
Debt Ratio	43%	24%	20%	30%	36%	35%	68%	63%
Cap Exp	26,826	21,904	53,760	91,049	56,366	29,742	30,425	29,176
Current Ratio	1.32	1.62	2.14	2.09	1.40	1.36	.95	1.30
Share Information								
EPS	.45	.89	.91	.15	.06	.91	(.42)	(.15)
# of Shares	10,375	11,861	16,737	16,749	16,820	16,818	44,274	45,299
High	10.20	16.00	16.65	13.00	12.00	12.26	12.05	8.25
Low	6.50	8.50	12.00	8.75	7.85	8.52	5.50	3.60
Close	8.55	14.15	12.45	9.00	9.25	12.26	5.91	8.18
PE Ratio	19.0	15.9	13.7	60.0	154.2	13.5	(16.4)	(54.5)
BV/share	11.49	11.72	13.14	13.04	12.62	13.07	10.94	10.76
Grain Volume (million tones)								
Primary	5,164	5,376	4,986	4,455	4,932	4,844	8,797	7,411
Port	2,626	3,192	3,064	3,016	3,285	3,408	4,930	3,742
# elevators	173	152	145	128	102	84	98	88

Table 5: Grain Deliveries (000 tonnes) and Average SWP Grain Handling Fees ($/tonne)

Year	Total Western Canadian Deliveries	SWP Deliveries	Average Grain Handling Fees
1995-96	30,831	9,300	$ 13.78
1996-97	36,056	11,177	$ 14.41
1997-98	32,113	9,634	$ 14.63
1998-99	29,692	7,720	$15.05
1999-00	33,880	8,131	$ 15.64
2000-01	33,322	6,998	$ 16.92
2001-02	25,371	5,835	$ 17.61
2002-03	20,584	4,323	$ 18.31

Sources: Canadian Grains Commission, SWP Annual Reports, and Saskatchewan Agriculture and Food Statistical Handbook.

Table 6: Saskatchewan Wheat Pool Sales and EBITDA, by Business Segment

	Sales (millions $)							
	1996	1997	1998	1999	2000	2001	2002	2003
Grain Handling	2,825	2,969	2,802	2,215	1,982	1,925	1,695	1,272
Agri-Products	444	539	567	555	532	516	436	443
Food Processing	586	612	684	640	588	603	544	128
Livestock Mkt	80	82	98	169	211	242	100	75
Publishing & Other	24	27	17	16	15	16	6	0
Total Sales	3,959	4,229	4,168	3,595	3,328	3,302	2,781	1,918
	EBITDA (thousands $)							
	1996	1997	1998	1999	2000	2001	2002	2003
Grain Handling	74,429	85,631	65,889	26,093	21,472	54,557	27,655	776
Agri-Products	65,392	66,318	48,245	48,654	35,948	49,322	21,827	23,497
Food Processing	33,923	25,077	25,536	34,717	28,414	39,139	35,376	15,253
Livestock Mkt	3,999	3,459	4,343	1,924	14,178	21,169	3,833	(7,185)
Publishing & Other	5,047	7,515	7,788	3,415	3,605	4,073	643	0
Total EBITDA	182,790	188,000	151,801	114,803	103,617	168,260	89,334	32,341

