Alberta Wheat Pool

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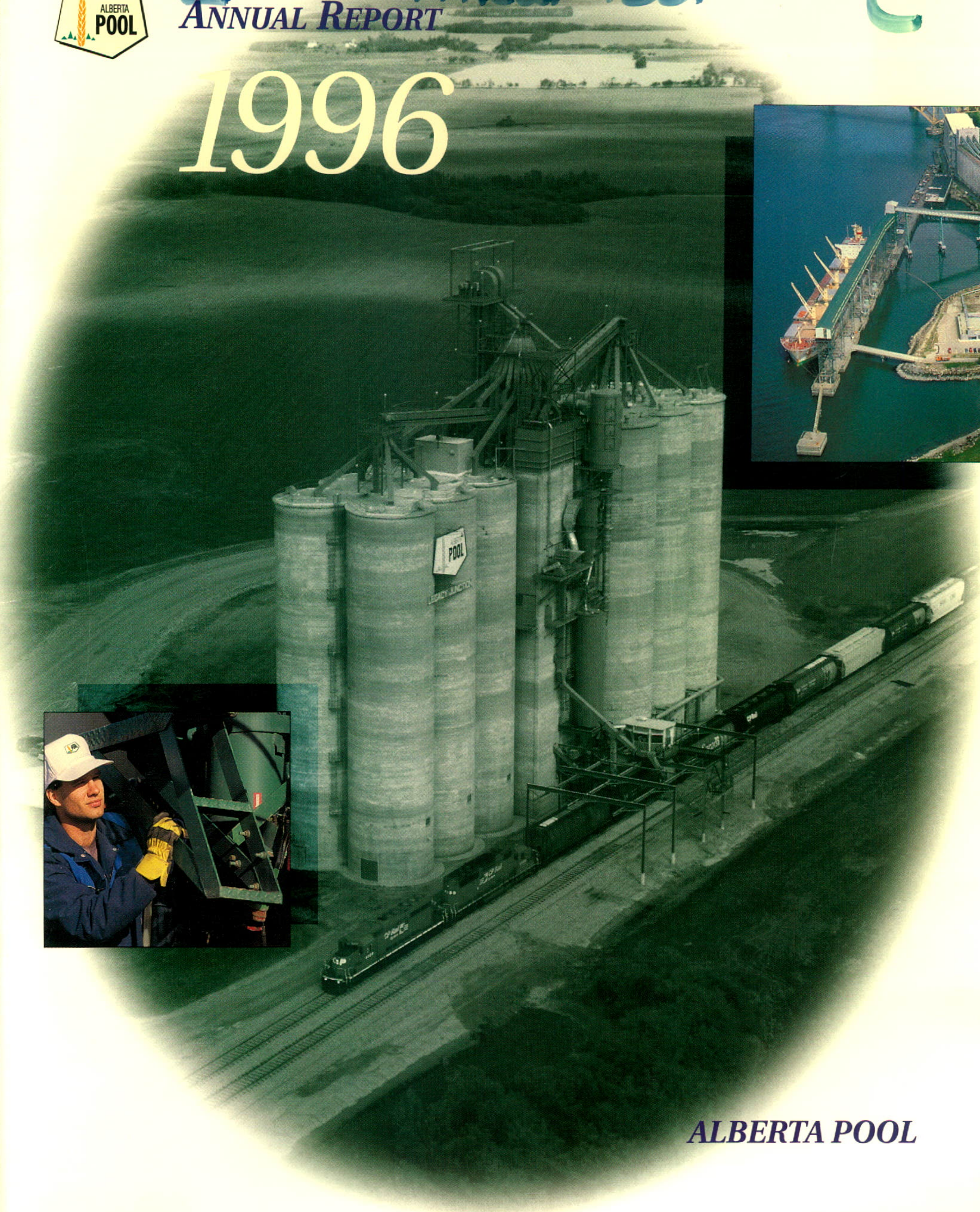
ANNUAL REPORT

1996



ALBERTA POOL

Changing the Way We Do Business

Alberta Pool is working hard to be well positioned for the future. We are progressing in our efforts to become an efficient, profitable leader in the Canadian agriculture industry, focussed on the customer and responsive to opportunities in an ever changing marketplace. The *Letter to Stakeholders* in this Annual Report highlights some of our initial accomplishments and talks about the challenges and hurdles ahead as we focus on adding value for customers in every aspect of business. This year, the *Feature* section looks at the way we do business, emphasizing people, logistics management and the role of facilities in marketing and meeting customer needs.

Alberta Pool operates in a marketplace which demands quality, flexibility and rapid response. To be successful, we must be logistically effective, supplying crop inputs when and where they are needed and pulling grain through the system to meet market demands. From providing input to the decision of what crops members will plant to delivering those crops to end-use processors, we must gear every action to the needs of our customers. We must provide the systems, services, facilities, and marketing expertise that will give members an advantage in a competitive business environment.

The world is changing. Our business is changing—sometimes so rapidly it may seem overwhelming. Alberta Pool is not content to simply keep pace with change; we are determined to lead the way in our industry. We are not the same organization we were five, two or even one year ago; we conduct business differently today. While we have made significant strides towards our goals, we have a substantial journey ahead, and change will be ongoing as we evolve and become increasingly responsive to market needs.

Delivery of grain at Alberta Pool facilities throughout the province is one step in the process by which Alberta Pool is 'Helping Farmers Feed the World'.

Even in the face of ongoing change, some things remain constant at Alberta Pool. Our cooperative was built on the traditions that made the western farmer successful: perseverance, determination, hard work, loyalty, and above all, vision. Those qualities are knit into our fabric. They are displayed by our people. They are intrinsically part of the way we do business today, and ultimately, they will be the basis of our success in this demanding and exciting era in the Canadian agriculture industry.

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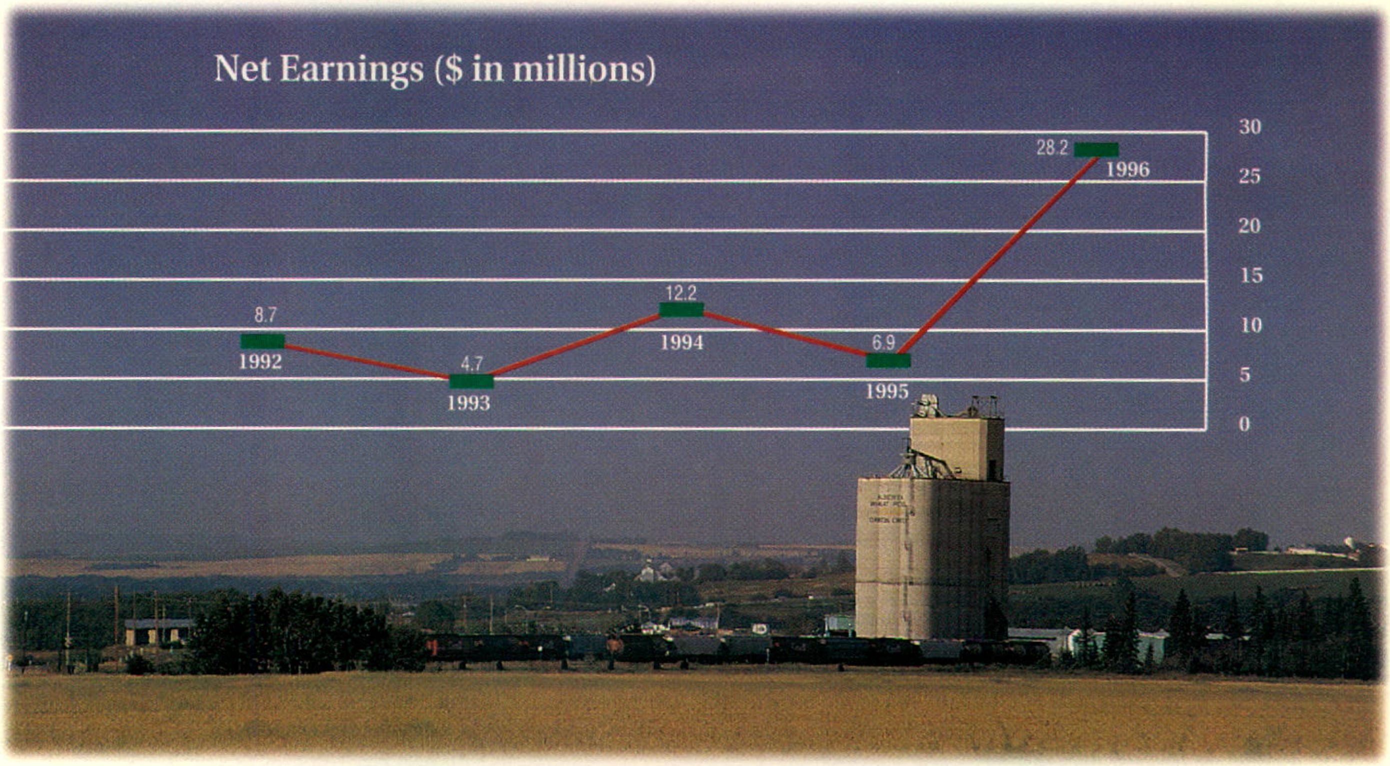
Annual General Meeting of Delegates November 25, 1996 Coast Plaza Hotel, Calgary, Alberta

Highlights & Comparisons

($ in 000s)

	1996	1995	1994	1993	1992
Gross Revenue	$ 2,128,120	$ 2,036,631	$ 1,460,191	$ 1,083,398	$ 1,188,666
Net Revenue	244,189	233,724	195,445	177,435	192,857
Net Earnings	28,248	6,900	12,182	4,733	8,732
Capital Expenditures	26,321	42,026	21,685	15,156	24,786
Working Capital	186,761	64,263	67,866	70,038	52,337
Long-Term Debt to Equity Ratio	49 : 51	31 : 69	34 : 66	38 : 62	34 : 66
Members' Equity	$ 183,871	162,339	157,903	146,490	148,224
Return on Equity	% 18.15	4.44	8.36	3.34	6.26
Working Capital Ratio	1.78	1.23	1.22	1.30	1.29
OTHER STATISTICS					
Grain Shipments (tonnes 000s)	5,519	6,361	6,074	4,703	6,050
Licensed Elevator Capacity (tonnes 000s)					
Country	1,039	1,207	1,336	1,381	1,402
Terminals	482	482	482	482	482
Total Membership	57,136	56,902	57,497	57,429	58,493
Number of Employees	1,366	1,443	1,469	1,421	1,461



Note: For an explanation of the restatement of results using the proportionate consolidation method refer to page 11 of the Management's Discussion and Analysis of Financial Condition

Letter to Stakeholders

For Alberta Pool, 1995-96 represented a major shift in focus by the board of directors, management, and staff as we began implementing the Country Development Process prepared in 1994-95. We have taken the first, critical steps in an ongoing journey of positioning the cooperative to improve returns for members.

Our year-end results positively reflect the effort and commitment of our entire organization to become more profitable. The returns will be utilized to enhance customer services, build infrastructure and, since Alberta Pool proudly remains a cooperative, return patronage refunds to farmers. Total grain shipped in 1995-96 reached 5.5 million tonnes, below last year's volume of 6.4 million tonnes. Net earnings of $28.2 million for the fiscal year ended July 31, 1996 were much improved over the previous year's net earnings of $6.9 million.

Allen Oberg (l), Alberta Pool director for district four, chats with Chief Executive Officer Gordon Cummings during a Board of Directors' tour of facilities at Fort Saskatchewan.

Our progress in steering Alberta Pool towards the goal of being a profitable cooperative, can be summarized under several broad themes:

- *country development process*
- *environmental initiatives*
- *financial initiatives*
- *equity*
- *policy issues*
- *people leadership*

Country Development Process

During the fall of 1995, farmer-delegates endorsed the Country Development Process calling for a restructuring of the grain collection system, enhancements to the agro business, and a new way of operating. The Process challenges us to adopt a more market-driven approach, connect with customers throughout the world and make Alberta Pool's business and the business of farming more profitable. It sets Alberta Pool on a course that will ultimately see us achieve better logistics management, greater operating efficiencies, and lower costs—an Alberta Pool more equipped to meet customer specifications and provide better returns to members.

The Country Development Process rationalizes grain and agro facilities to achieve efficiencies. It involves facilities upgrades and new construction. But the key element of the Process is our strategy to do business in a new and better way to maximize value for our customers, be they member/suppliers or end-use processors.

Canada's west coast ports continue to experience increasing importance in world trade. Alberta Pool's technically advanced, world-class Vancouver terminal has capacity to handle increased volumes of grain. In 1995-96 the organization took positive steps to ensure that facility will meet its potential. In a transaction last winter with General Mills, Alberta Pool moved 21,000 tonnes of grain by truck from Montana to Alberta for movement to our Vancouver Terminal. On July 17, 1996, we announced an agreement in principle to form a joint venture with Prairie West Terminal Ltd. to build a grain handling facility in west-central Saskatchewan. The new facility will offer additional export grain volumes for movement through our Vancouver terminal.

In June, Prince Rupert Grain Ltd. (PRG) temporarily shutdown operations as a result of seasonally low exports through the West Coast. The future of Prince Rupert Grain Ltd. remains uncertain. As a member of the Prince Rupert Grain Consortium, Alberta Pool recognizes its obligation to all

John Pearson (l), Alberta Pool first vice-president, tours the Rockyview Agro Centre with Ed Rodenburg, general manager, agri-business division.

stakeholders to seek solutions to the current challenges: the high cost of operating at the Port of Prince Rupert, the high cost of debt associated with that terminal, and the ability to utilize the efficiencies PRG offers.

To maintain a competitive position and protect the investments of members, Alberta Pool must be ready to take advantage of growth opportunities and adapt to unforeseen changes in Canada's grain marketing structure. We are committed to meeting challenges head on with creative and innovative approaches. Stakeholders can be confident Alberta Pool will continue to be proactive in seeking out solid investment opportunities in core grain and agro businesses.

Environmental Initiatives

Alberta Pool remains committed to protecting the environment. We are sensitive to environmental issues and responsible in all our business activities. Our environmental code of conduct, impact assessment and decommissioning guidelines are examples of the cooperative's firm commitment to protect precious natural resources and Alberta Pool's assets. At the same time, the Pool's updated Farm Environmental Assessment Guide helps members protect their assets.

Financial Initiatives

In 1995-96, with the assistance of Nesbitt Burns Inc., the cooperative successfully raised $100 million through a term debt offering, to support future growth and expansion and better structure the debt portion of our balance sheet. Response to the competitive offering was immediate and extremely positive, attesting to the investment community's confidence in Alberta Pool. The borrowing replaced short-term lines of credit and did not add to the Pool's overall debt. It allowed the Pool to strengthen its balance sheet without compromising members' control. Alberta Pool's financing mix is now arranged to better align with the long term nature of its assets.

Alberta Pool members and staff also indicated their confidence in the cooperative last year. Investments through member loans and staff savings grew to more than $50 million, representing the first increase in this investment opportunity in many years.

Equity

Alberta Pool exists for, and because of, its members. In a major initiative this year, we developed and implemented a new member equity plan in which members benefit from doing business with Alberta Pool and are rewarded for doing more business with us. With the assistance of the Alberta government, the cooperative was successful in efforts to change "The Alberta Wheat Pool Act" allowing us to issue preferred shares. Alberta Pool can now provide a measure of liquidity and offer flexible investment options for member equity, while continuing to provide patronage refunds and build retained earnings. Alberta Pool's success in 1995-96 means the Board will recommend declaration of $19.8 million in total patronage dividends for members who did business with us this year. At year end, member equity exceeded $183 million.

President Alex Graham (l) discusses grain quality with Ron Gorst, general manager, grain division.

Policy Issues

Alberta Pool, through its board and management, was a key player in a variety of critical issues within the grain industry in 1995-96. Among these were:

- *the Senior Executive Officer's recommendations on grain transportation, the subsequent rail car ownership question, and the formation of the Car Allocation Policy Group*
- *the issues surrounding the Western Grain Marketing Panel which reviewed the marketing of western Canadian grains, oilseeds and special crops*
- *input to the development of the Canada Transportation Act which retains parts of the now defunct National Transportation Act and establishes a new, simplified process for transferring and discontinuing branch lines*
- *feedback on the design of the Canada Marine Act which supports commercialization of the Canadian Port System and the St. Lawrence Seaway System, and moving Pilotage services to a self-sustaining basis*

Board of Directors' Human Resources Committee members: Brian Lindeman, director for district one (l); Bonnie DuPont, director of human resources and administrative services (c); and, Albert Pidruchney, director for district six.

People Leadership

As Alberta Pool's most valuable resource, people were the focus of much activity in 1995-96. People are the vital link between farmers, customers and Alberta Pool. They develop the plans and new operating approaches which ultimately lead to success. By developing existing staff and recruiting internally and externally, we worked diligently to secure the right people and provide them with the knowledge and skills to take us forward through the demands and challenges of our changing industry.

Recognizing a motivated staff is key to achieving Alberta Pool's goals and new direction, the board and management initiated an incentive pay program. Designed by a staff team with support from management, the Performance Enhancement Program (PEP) recognizes and compensates employees when Alberta Pool exceeds specific financial objectives. As well, it motivates them to strive for excellence in the products and services they offer.

In February, Alberta Pool signed a three year agreement with the Grain Services Union representing full-time Alberta Pool staff employed in the operation of primary country elevators in Alberta and northeastern British Columbia. The agreement includes participation in PEP and maintains base salaries for three years at current levels.

As the 1995-96 crop year began, Alberta Pool divided the Country Operations Division, creating the Agri-Business Division and the Grain Division. The restructuring supports an efficient and ultimately more profitable, market-driven, team approach to business.

The Agri-Business Division team led by Ed Rodenburg focuses on the customer in new areas of service and product development. The division includes the Seed Business Unit, Research and Development, Special Crops Business Unit, Bean Business Unit, Prairie Sun Grains, and Agro Business operations of retail fertilizer, crop protection and seed products and services.

Board of Directors' Audit and Finance Committee members: Geoff Southwood, chief financial officer (l); George Groeneveld, director for district two (c); and Mel McNaughton, director for district three.

The Grain Division team led by Ron Gorst, incorporates all grain operations including domestic and export marketing, country elevators and port terminals. This restructuring sets us on the path of providing an efficient, seamless system of moving grain from farm to market.

Looking Ahead

Our mission statement ***"Helping Farmers Feed the World"*** is an integral part of Alberta Pool's philosophy. As we operate in a mature business environment, our mission reflects the challenges we face: to grasp every efficiency, rationalize our infrastructure, utilize multi-plant economies, gather and use strategic market information and incorporate superior logistics and quality control. Only through dedication to these principles will the organization be positioned to respond to future market opportunities.

In 1995-96, Alberta Pool made measurable and noticeable progress towards its goals. We were heartened by many successes; we recognized areas where we need improvement. The road of progress is long with many twists and turns, but we believe our navigational strategies are sound. Following are just a few of the opportunities we look forward to in 1996-97:

- *ongoing training and development of our people so they can continue to respond to the opportunities and changes in our industry*
- *securing and building market share by focusing on individual customer needs*
- *progressing on construction and commissioning of modernized facilities*
- *improving margin management and accountability in all aspects of Pool business*
- *implementing replacements to core information systems*
- *controlling costs while delivering value for suppliers and customers and eliminating nonessential spending*
- *building equity for farmer members through the equity plan*

Many of the building blocks are in place. We are confident Alberta Pool's plan is working to produce positive returns for our members, position the cooperative to respond to the marketplace and add value for our customers. As we contend with new market demands, rail line rationalization, and a changing business environment, our team is poised to face the challenges of the coming year and onward into the new millennium, focussed on becoming the enterprising, profitable organization our members and stakeholders expect and deserve.

Alex Graham
President

Gordon Cummings
Chief Executive Officer

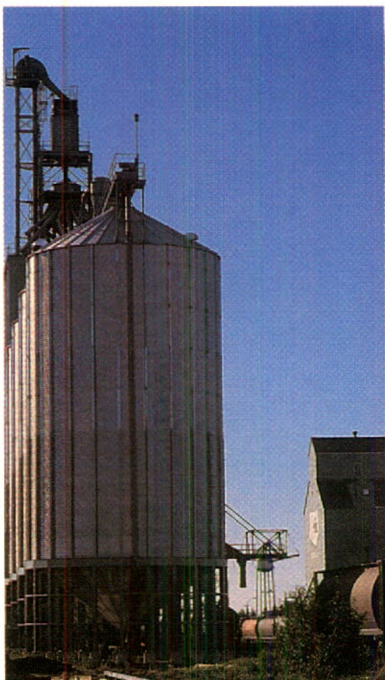
Board of Directors' Democratic Structure Committee members: Dennis Nanninga, director for district seven (l); Dale Riddell, director of corporate affairs (c); and Neil Silver, second vice-president.

A New Era

The Way we do Business

There's no question. Even a glance at an old photo of a single-tower, wood-frame grain elevator generates huge nostalgia: the clank of the motor, the distinctive smell of grain dust permeating weathered wood, conversations over coffee. Throughout the years, prairie grain elevators have been an intrinsic part of Canadian country life and the cornerstone of the grain industry. While they are still a vital link in the grain marketing chain, vigorous global and domestic market demands coupled with dramatic changes to Canada's national transportation system have forever redefined the numbers, the role and the appearance of country elevators.

Alberta Pool's Country Development Process initiated last year reconfigures our entire grain facility network enabling us to respond to changes in the marketplace, take advantage of rail line rationalization in a deregulated environment, and ultimately return more value to our member stakeholders. In some areas, we have no choice but to abandon and dismantle outdated facilities on rail lines that will be closed, but where feasible, Alberta Pool is investing substantially to modernize and upgrade current facilities. We are also building new, high-throughput, highly automated facilities which place us at the leading edge of grain handling in Canada and solidify our competitive position.



The old and the new. Upgrades like this Alberta Pool facility at Vermilion help solidify the cooperative's competitive position.

The Country Development Process is strategic and deliberate, based on the philosophy of pulling grain through the system to meet customer needs. "We look at each facility in our network and ask ourselves if it adds value, if it is capable of loading grain into rail cars quickly and cost effectively and if it helps build and protect our competitive advantage," says Mike Wood, capital budget and planning support coordinator. "We look at local production densities and projections, competitive presence, proximity to rail and highway routes and the types of markets targeted by local farmers."

In a more deregulated environment, railways will provide incentives for quick train turnaround. For Alberta Pool to remain competitive, all our long-term facilities must eventually be able to handle, or "spot", at least 25 rail cars (a quarter train on CN or CP rail lines), and load those cars within eight to ten hours.

"For some Pool double-composite type elevators, we must increase car spots, extend driveway scales, improve shipping and receiving capabilities and improve the office environment. While upgraded elevators may not look substantially different on the outside, they are remodeled throughout with enhanced or new handling machinery to move grain much faster," says Wood. A major upgrade typically costs more than $1 million.

The emphasis is on speedier handling, higher throughput, and just-in-time delivery of grain to meet sales commitments.

New facilities such as our concrete terminals at Smoky River and Legacy Junction contain the latest in grading and drying technology. With 50 and 52 car spots (half train) respectively, they can handle as much grain in a week as old elevators used to handle in a year. While these new terminals provide adequate storage to serve our needs, the emphasis is on speedier handling, higher throughput, and just-in-time delivery of grain to meet sales commitments.

Alberta Pool has approved major upgrades at Fort St. John, Dawson Creek, Vermilion, Bow Island, Beiseker, Barons, Grimshaw, Foremost and High Level. Our Brooks elevator was in the advanced stages of a major upgrade when it was destroyed by fire July 31, 1996. "Our first priority was ensuring our customers in the area would not be negatively impacted. We were able to respond quickly and began erecting a temporary handling facility to serve the area until a permanent high-throughput elevator can be constructed," says Wood.

As well as upgrades, Alberta Pool assessed new elevator construction requirements in Rycroft and Dunmore, each capable of loading half trains. We announced a joint venture with Prairie West Terminal Ltd., a local producer group in Saskatchewan, to build a 32,000-tonne concrete elevator in Dodsland, Saskatchewan, expected to come on stream in the summer of 1998.

New, smaller agro warehouses like this facility at Ponoka meet environmental standards and offer more cost-effective services to members.

"As we move further into the Country Development Process, we will announce additional upgrades and new facilities," says Wood. "Our goal is to improve logistics management and operating efficiencies as we meet specific requirements of end-use customers. At the same time, we ensure each project provides an acceptable return on investment for the cooperative."

Mobiload—Improving Service

Improved service goes hand-in-hand with improved logistics. No where is that more apparent than with Alberta Pool's new travelling grain facility Mobiload. Introduced to southeastern Alberta in February, 1996, Mobiload is changing the way Alberta Pool does business in the area. While it looks at first glance like an ordinary truck, this state-of-the-art, completely self-contained unit can be used to sample, grade, weigh, purchase and transfer grain.

Mobiload's onboard grain testing equipment and computer system lets the operator perform the entire grain purchase transaction—complete with grain receipts and cash tickets—right on the farm. With a self-contained, heated and air-conditioned office, the operator and customer conduct business in a pleasant environment protected from outside elements.

Mobiload's hydraulically driven augers can transfer grain from bin-to-truck, bin-to-bin, truck-to-railcar, truck-to-truck, and railcar-to-truck. With a throughput capability of 80 metric tonnes (3,000 bushels) per hour, the unit loads a commercial truck in less than 35 minutes.

"This innovative equipment is an important addition to our grain handling capabilities," says John Jenkins, manager country business unit. "For our producers Mobiload provides an alternative to elevator service particularly in areas where elevators have been consolidated. It provides a whole range of possibilities for the future."

Agro Efficiencies

Alberta Pool Agro Centres supply crop protection products, fertilizer, seed, twine, professional agronomic advice and custom application services to our members throughout the province. Like our grain operations, the Agro Business Country Plan calls for changes to make us more efficient and profitable adding value for our member customers. As part of the process, the Agro Business has rationalized and significantly upgraded facilities, focussing on more effective inventory and distribution management.

"In a nutshell, we are shifting our focus from storing to marketing," says Rob Haag, Alberta Pool's agro business development advisor.

The process began several years ago when the Crop Protection Institute, of which Alberta Pool is a member, initiated new warehouse safety standards, rendering many of our facilities unsuitable. "As a result, we took a look at the entire facilities network of more than 250 locations," says Haag. "We also looked at ways to improve distribution and the level of service we provide our members, and we focussed on one of our largest expenses, inventory carrying costs."

Alberta Pool earmarked some $22 million over five years to consolidate, upgrade and build new facilities. "We've now streamlined to 64 locations in southern and central Alberta served by a public warehouse with trucking support," says Haag. The Peace River region in the northwest has 13 Agro Centres served through four warehouses. The facilities are smaller, averaging 3,000 square feet compared to the 10,000 to 20,000 square feet of former warehouses.

"The focus is to move products quickly from a central location to wherever they're needed rather than keep large stocks on hand at each location."

"It's a far more cost-effective way of doing business and we are able to maintain the same efficient level of service," he explains.

With improved technology, Agro Centre staff members are now able to order and move product more quickly. "Our goal, though not always possible, is same or next-day delivery. To reduce storage and warehousing costs, we source product from the supplier for direct shipment whenever possible."

To improve profitability, the Agro Business Division focussed on inventory management in the 1995-96 crop year with new internally-developed systems which provided agro managers with inventory information at their finger tips. "We also introduced a new forecasting system early this year to further manage and move inventory within the system," says Haag.

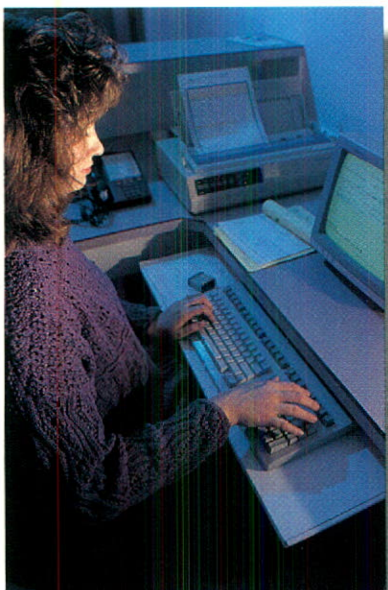
"A look at year-end results shows the fruits of our efforts. For example, our year-end chemical inventory carry-over was down almost 50 per cent from previous years and we handled the same amount of product with less than half of our former agro facilities. It's a very successful story for Alberta Pool and our members."

Information Technology

An Essential Component

Especially in the vital area of information technology, those who hesitate are, indeed, lost. Alberta Pool, far from hesitating, continues to move forward to meet the complex systems challenges inherent in our business. During 1996, the Pool outsourced its information systems operations to DMR Group Inc.; this partnership will reduce costs and substantially improve performance.

While we still have significant work to do and will continue to invest substantially in enhancing information technology, we have made progress in several areas. Our new grain pricing system and highly acclaimed Resource Allocation Decision Support System (RADSS) are examples of how advances in information technology play a vital role in Alberta Pool's business.



Advances in information technology help Alberta Pool meet the complex opportunities and challenges of a changing industry.

Grain Pricing

As market demands become increasingly more specific, information technology plays a vital role in ensuring Alberta Pool provides end-use processors with the exact products they want and passes the value back to producers. Our new custom pricing system, introduced early this crop year, automates a highly complex process and creates a win-win situation at both ends of the grain marketing chain.

"Pricing is the forerunner to the 'pull' versus 'push' inventory management approach to our business," explains Russ Crawford, manager, industry and community relations. "It's a signal to the farmer of what the market needs where and when."

The pricing system is driven by two value-added components: destination and quality. Destination value continually changes with the market. While it might be advantageous for a producer to ship grain to a specific destination one week, factors such as changing freight rates or market demands, may create more value in shipping to a different location the next week, explains Crawford. By continually comparing these 'destination values' and offering farmers the best possible return, we are helping them optimize their revenue.

With progressive demands of end-use industries, customer quality requirements are increasingly more specific. "End users are willing to pay for specific protein, starch, or oil content," says Crawford. "We needed a way to relate that value back to the farmer." The quality identification component of Alberta Pool's new pricing system works in conjunction with and extends the Canadian Grain Commission's grade standards.

"The new system reflects actual value at every country buying point. It sends the right market signals and returns full value to every producer."

"We can now measure the quality components end-users want to recognize and add value to our country bid. We then communicate the information to country staff so they know, for example, that we can pay a premium for a particular quality with specific protein and moisture percentages."

In the past, Alberta Pool provided consistent across-the-province average bids for specific products regardless of destination or quality value. "This average pricing was not market responsive. The new system reflects actual value at every country buying point. It sends the right market signals and returns full value to every producer."

By processing a myriad of applicable data—quality, destination, freight rates, elevation and cleaning charges, exchange rates, customs and duty where applicable—the pricing system comes up with the best available 'bid price' for each location in the country system.

The grain pricing technology is just one component of a logistical grain-management system in which the end user dictates what we should be handling, explains Crawford. A new contract system, to be introduced early in the 1996-97 crop year, automates the process even further by supplying immediate information to country staff, allowing them to process immediate and futures contracts on the spot.

Moving Grain to Market

The mammoth challenge of moving grain from the field to global and domestic markets is as complex as ever, but today, thanks to innovative technology incorporated by Alberta Pool, the decision making process is far more efficient and effective than in the past and will improve still further in the next two to three years.

The challenge, simply put, is to deliver the right type and quality of grain to the right location at the right time using trucks and the precious, limited resource of allocated rail cars. Of course, it's not that simple. Alberta Pool handles some 70,000 rail car orders a year on 58 train runs throughout the province.

Since inventories and shippable stocks can change daily, car allocations may be based on outdated volumes. "We need to be able to massage the allocation, make quick decisions and respond to many variables if we are to avoid congestion and ensure grain moves fluidly through the system," says Doug Caswell, supervisor of allocations. "Until three years ago, we had to keep track of much of the information in our heads. We had files stacked up on our desks and constant phone calls coming in, and there was sometimes a feeling that allocation was done with a large map and a dart. With RADSS-Rail, the information processed via the computer and alternative scenarios can be developed in seconds."

Jointly developed with the Alberta Research Council, RADSS "was a great step for Alberta Pool in improving logistics management, and it ties in very nicely with our objective of being market-driven and customer-focused," says Caswell.

Owned 50 per cent by Alberta Pool, RADSS Technologies is an independent software company marketing rail and truck management systems solutions to a number of clients, including Saskatchewan Wheat Pool. In addition, RADSS Technologies has found markets for its products outside the grain industry, and is actively pursuing markets in the trucking sector and amongst other bulk commodity shippers throughout North America.

"No human has the time to come up with optimum allocation alternatives, but RADSS does...and quickly."

RADSS uses Alberta Pool's information on inventories, shippable stocks and other data from the country and Canadian Wheat Board allocation information. Its artificial intelligence techniques evaluate all allocation possibilities. "No human has the time to come up with optimum allocation alternatives, but RADSS does...and quickly," says Caswell. "The computer grinds through all the grunt work and provides scheduling choices. We then use our human abilities to manage the schedule and apply the company's strategies."

RADSS-Rail application, now in place for several years, is a "very stable, solid system," used primarily in shipping grain for export, says Roy Masrani, head of RADSS Technologies. "Our challenge in the last crop year was to manage truck logistics with the view to reducing freight costs for Alberta Pool. The RADSS - Trucking system will help Alberta Pool more effectively meet the continually changing demands of domestic markets." The trucking system, developed jointly with Alberta Research Council, began operating at Alberta Pool in July, 1996.

Since trucking is not limited by Canadian Wheat Board allocation, RADSS-Trucking is even more complex than the rail system. Like the rail system, it uses massive amounts of data: customer requirements, grain inventory and delivery data from the country, elevator information such as hours of operation and loading capacity, farm locations, and data about trucking companies.

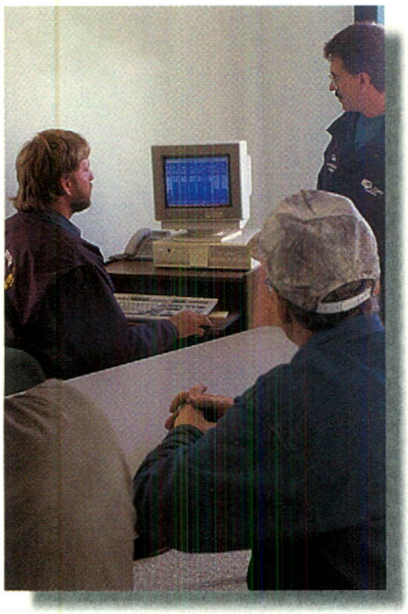
RADSS produces a good trucking schedule in about an hour. "After the data is reviewed, operators push the 'magic button' that sends weekly schedules by electronic mail to all Alberta Pool stations and by fax to the truckers," says Masrani. "This will prove to have a significant competitive advantage for Alberta Pool."

Information technology has become a vital tool in moving grain to ports and markets by rail and truck.

Our People
Vital to Our Success

The quality of Alberta Pool's staff is critical in accomplishing the goals and implementing the strategies laid out in our Country Development Process. We are asking staff to provide the most efficient, effective service in the industry, and, at the same time, adapt to the fundamental changes occurring in the way Alberta Pool conducts business. It's a tall order, but we are confident in their abilities and are committed to providing them with the skills, education, technology and support they need to meet the challenge. In 1995-96, we invested substantially in the people of Alberta Pool and we will continue to make that investment in the future.

"Our industry is facing unprecedented change, and it has never been more important for the Pool to invest in people," says Bonnie DuPont, director human resources and administrative services. "We can create as many plans and programs as we want but without strong people to implement those initiatives we won't succeed. We need creative, innovative, dedicated people and we need to help them develop their strengths."



Cody Tetachuk, one of Smoky River's two producer services representatives, conducts a training session with members to demonstrate Alberta Pool's on line service.

"In this environment of continuous change, we are trying to create a culture of continuous learning where people work together towards a common goal."

As the Pool develops new relationships with farmers and expands the services we offer, staff are called on to make fundamental changes in the way they operate. Newly introduced equipment and programs require them to keep abreast of the latest technology and develop new skills. Simultaneously, they must continue to deliver exceptional service to customers and nurture their relationships with each other.

"In this environment of continuous change, we are trying to create a culture of continuous learning where people work together towards a common goal," says DuPont. "For this to happen, all kinds of pieces have to come together: selection of the right staff, education and development of talent, rewards and measurement systems. As the demands of our business intensify, we will rely increasingly on the adaptability of our people."

Our Country Development Process calls on Alberta Pool to be a responsive organization helping producers meet the demands of domestic and global markets. For staff, that means building stronger customer relationships and providing expert agronomic advice and services. For producers, it means more one-on-one, on-the-farm contact with Alberta Pool staff.

Early in 1996, as part of our Country Development Process, Alberta Pool introduced a new employee position, the Producer Services Representative (PSR). The new position is recognition of the changing nature of farming. In the past, most producers drove to the elevator to conduct all their farm business. Today, many want extensive support services offered on their doorstep, and that's precisely the role of Alberta Pool PSR's. By the end of the 1995-96 crop year, 22 PSR's were at work with farmers throughout Alberta and northeastern British Columbia, and more PSR's will be added in the 1996-97 crop year to meet existing producer requirements.

"It is very important for us to maintain strong relationships with producers," says Brian Reinhart, PSR for Legacy Junction. "In the past, the elevator manager alone was the key contact for producers. While elevator staff continue to play a vital role, elevators are further apart and some business is conducted entirely away from grain handling facilities. It is vital for the PSR to be in touch with producers on a regular basis."

PSR services range from helping producers develop comprehensive production and marketing strategies to addressing specific problems that require a knowledgeable and experienced team. Alberta Pool PSR's are committed to providing quality customer service in grain handling and marketing, with the overall objective of adding value and helping producers realize profitable results.

Management's Discussion and Analysis of Financial Condition and Results of Operations

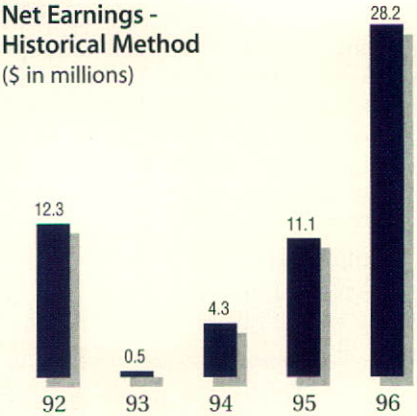
The following discussion reviews the Pool's operations for each year in the three-year period ended July 31, 1996, and sets forth management's discussion and analysis of these results. The material should be read in conjunction with the Pool's 1996 Consolidated Financial Statements and notes thereto.

Readers should note that effective 1996, the Pool has adopted the mandatory presentation of statements using the proportionate consolidation method. The principal impact of this change is to include the Pool's proportionate share of the assets, liabilities, and operating results of Western Co-operative Fertilizers Limited (WCFL) and XCAN Grain Pool Ltd. (XCAN). These organizations are cooperatives jointly owned with Manitoba Pool Elevators and Saskatchewan Wheat Pool. This accounting change required Alberta Pool to restate results of prior years to include the Pool's proportionate share of WCFL's profits and losses during the period when WCFL had a shareholders' deficiency. In prior years' statement presentations, the Pool did not recognize its share of WCFL's shareholder deficiency as the Pool has no legal obligation to indemnify WCFL's creditors. Readers should note that WCFL's results in 1996 have been extremely positive and the cooperative's net equity position is no longer in a deficit; the Pool's share of WCFL's shareholder equity was $10.6 million at July 31, 1996.

EARNINGS

Net earnings for the Pool continue to demonstrate a substantial improvement year over year. Based on the past method of reporting, Pool results in 1996 achieved net earnings of $28.2 million, as compared to $11.1 million in 1995 and $4.3 million in 1994.

Net Earnings - Historical Method
($ in millions)



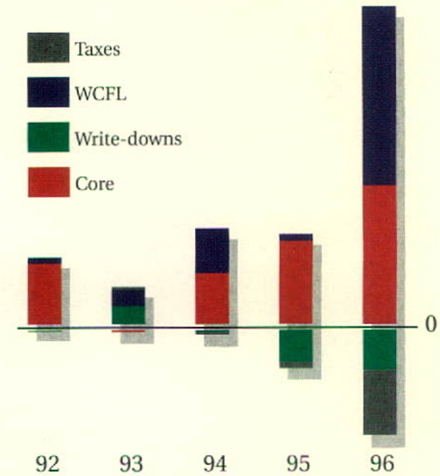
The strong improvement in the reported results of WCFL was the largest factor in achieving higher net earnings. Results were also positively influenced by business growth in agri-businesses and margin improvements across the Pool.

Impact of WCFL

WCFL is the major supplier of fertilizer products for the Pool's retail network of agro centres and dual purpose elevator locations. It derives its income principally from its 34% share in the earnings in Canadian Fertilizers Limited, which operates a nitrogen/anhydrous and urea plant in Medicine Hat, Alberta. WCFL also purchases for resale various fertilizer products marketed under the Westco™ name. The following graph depicts the impact inclusion of WCFL's results has had on the Pool's net earnings in recent years.

Historically, WCFL was involved in the production of phosphate and nitrate fertilizers in Medicine Hat and south Calgary, Alberta. These operations were fully closed by 1987. For several years, WCFL has developed an ongoing environmental management program towards returning the plant sites to acceptable government regulatory and socially responsible standards. It recorded a provision for $61.5 million in decommissioning and reclamation costs of the former production sites on its 1995 financial statements, thus creating a significant shareholders' deficiency on its books. Since the Pool has no liability for WCFL's actions nor any obligation of indemnity for WCFL's deficit position, no such loss was recognized in the consolidated results of the Pool's financial statements. WCFL's operating results had been adversely affected by fertilizer commodity pricing in the previous decade and the Pool appropriately had not recognized its share of WCFL's continuous deficits. The past four years were more profitable even with the 1995 provision. It is only in 1996 that the Pool would have recognized its share of WCFL earnings under the past method of presentation. Proportionate consolidation requires that the Pool recognize its share of deficit despite the fact that it has no obligations to WCFL's creditors. Restatement of historical earnings under proportionate consolidation shows 1996 net earnings as $28.2 million, as compared to $6.9 million in 1995 and $12.2 million in 1994. 1995 was the year of WCFL's provision for decommissioning and reclamation costs.

Where the Earnings Come From

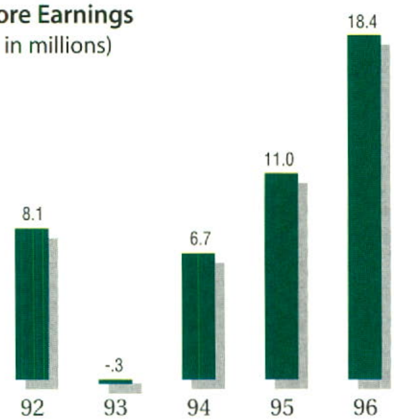


Management's Discussion and Analysis *continued*

CORE BUSINESSES

The Pool's core businesses are the handling and marketing of grains and oilseeds and the sale of agricultural inputs to farmers. To undertake these businesses, the Pool views its primary asset as its people who manage, operate and administer its country gathering system, ocean terminals and agro service centres. The Pool's commitment to continual development has provided for an improved and successful outcome. Results from the core businesses totalled $18.4 million in 1996, as compared to $11.0 million in 1995 and $6.7 million in 1994.

Core Earnings
($ in millions)



The grain handling business comprises a continuous chain of activity that starts from the on-farm visit by a Producer Services Representative to assist with seeding intentions. This results in deliveries to the elevator system or direct to Pool customer and, where products are exported, shipment to overseas markets through ocean terminals. In the past, some industry observers have inappropriately viewed terminals as profit centres operating independently; in fact, terminals do not function without grain originating from the country system and the country system cannot effectively function without export capacity. The grain handling business derives its revenue principally from:

- *handling tariffs*
- *elevation tariffs*
- *cleaning revenue*
- *storage revenue*
- *merchandising of grain and oilseeds for the Pool's account*
- *sale of by-products (or screenings)*

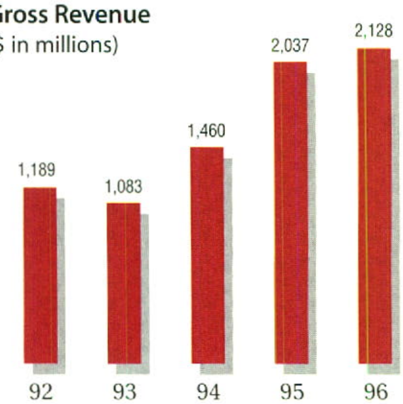
The Pool has organized its agri-businesses under a separate business unit. These businesses are comprised of separate independent units as follows:

- *sale of agricultural inputs to farmers*
- *special crops processing and marketing (principally mustard and peas)*
- *bean processing and marketing*
- *seed processing and export sales*
- *Prairie Sun™, a flour mill*
- *research and development*

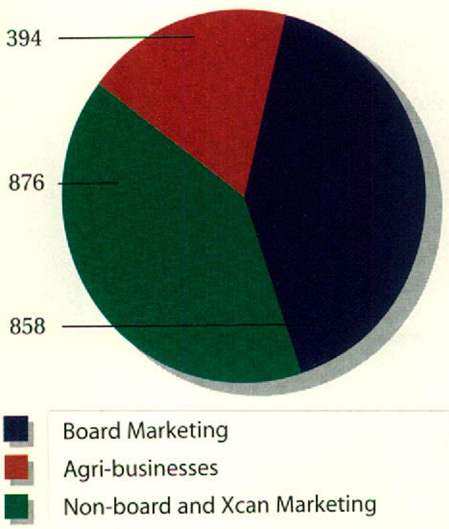
REVENUES

Over the three years ended July 31, 1996, the Pool has increased the revenues derived from its grain and oilseed business and its various agri-businesses.

Gross Revenue
($ in millions)

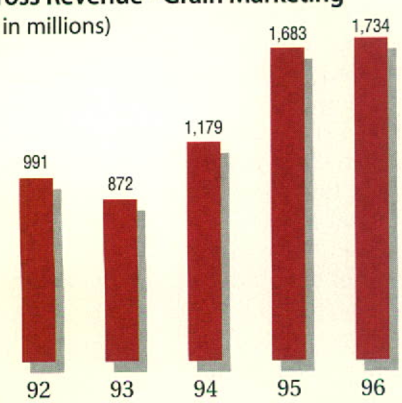


Source of Gross Revenue
($ in millions)



A large part of the increase in grain handling business revenue was influenced in 1996 and 1995 by the rapid increase in grain and oilseed prices. Volumes shipped, by contrast, were down in 1996 from 1995 by 18%. This was caused by the fact much of the 1994 harvest was still in inventory at the beginning of 1995 and was handled during that following year.

Gross Revenue - Grain Marketing
($ in millions)

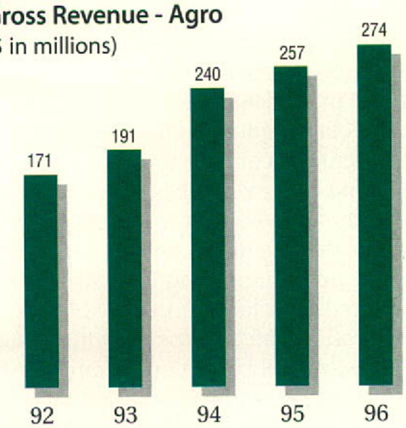


The increase in revenues in the agri-businesses continued the strong growth patterns of previous years in dollar volume and real tonnage.

Agro

Steady, year-over-year gains in revenue reflect sound management decisions over level and content of inventories despite consolidations in the number of retail outlets. Although poor fall and spring planting weather conditions were experienced, the investment in improved facilities and new equipment allowed an increase in revenue for 1996.

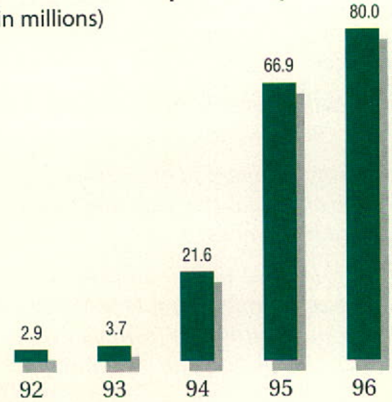
Gross Revenue - Agro
($ in millions)



Special Crops

Growth in the Special Crops business unit for the past two years has been fueled by an expanding international feed pea market and strong markets for mustard seed and products through the Demeter group of companies.

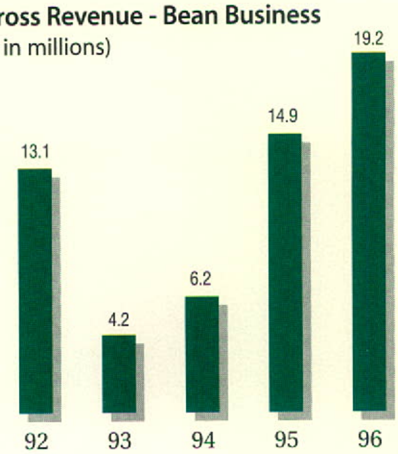
Gross Revenue - Special Crops
($ in millions)



Bean Business

Higher prices and volumes along with the completion of a new plant at Taber in 1995 have resulted in increased revenues for the bean business over the past three years. The effects of further capital expansions will continue to increase capacity and sales revenues in future years.

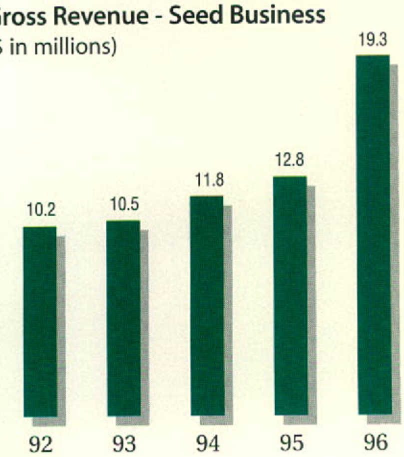
Gross Revenue - Bean Business
($ in millions)



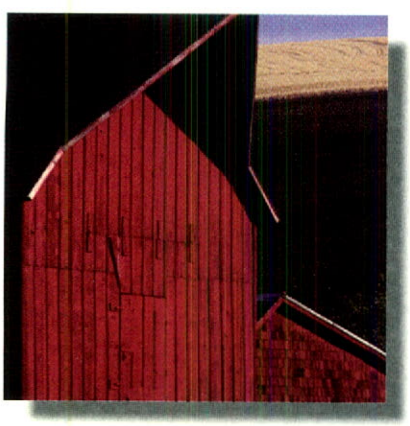
Seed Business

Volumes of seed sales have increased due to continuing penetration of niche international markets.

Gross Revenue - Seed Business
($ in millions)



Management's Discussion and Analysis *continued*



EXPENSES

Expenses declined as a percentage of net revenue to 80.8% in 1996 from 82.3% in 1995. This compares to 89.9% in 1994. Salaries and related benefits account for almost 50% of the overall expenses in the year. Costs of this nature had increased 7.8% for the period 1994 to 1995, but effectively remained stable for the period from 1995 to 1996 other than in the provision for payment of the Performance Enhancement Program in the amount of $1.8 million. For the period from 1994 to 1996 the number of employees was reduced from 1,469 to 1,366. A significant portion of this reduction resulted from the outsourcing of computer services activity beginning in April of 1996. This change is part of the corporate effort to strategically align the organization's staffing in relation to core operations, and effectively will lead to reducing long-term baseline costs. Depreciation and amortization increased with the first full year of operations of the large inland grain terminals at Legacy Junction and Smoky River. Increases in general and administrative expenses resulted primarily from restructuring of administrative functions.

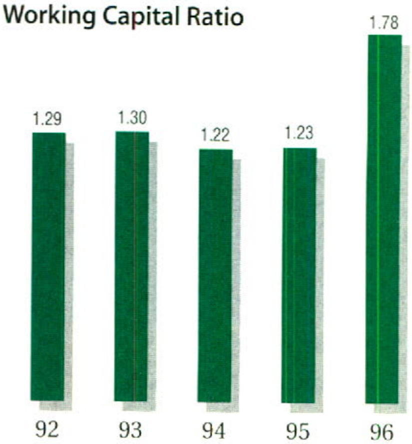
LIQUIDITY AND CAPITAL RESOURCES

At July 31, 1996, cash and cash equivalents had increased $83.6 million over year-end 1995, which in turn had been an increase of $17.0 million over the previous year. These changes result from three influences:

- *the cash generated from earnings 1996 and 1995 was strong*
- *the improvement in quality of receivables and the reduction in agro input inventories*
- *the raising of $100.0 million in long-term notes to replace financing previously provided from working lines of credit due on a demand basis*

The long-term note issue enabled the Pool to match long-term financing against its long-term asset base. This financing and effective management of resources provided for an improved working capital ratio.

Working Capital Ratio



The assets of Alberta Pool are largely unencumbered, consequently the Pool has the ability to operate in a flexible and prudent fashion. The Pool enjoys excellent relations with its bankers and long-term note holders and its commercial paper is rated R-2 (Middle) by independent rating services.

Capital expenditures in 1996 were a modest $26.3 million compared to previous years. Although the Pool had in place a redevelopment process aimed at rejuvenating and aligning facilities more efficiently with crops, the process of spending on new facilities is deliberately moving ahead at a pace that ensures that market share is secured. It is expected that in 1997, the pace of capital expenditure will accelerate as Producer Service Representatives respond to the specific needs of the producers and market share begins to build.

During 1996, improvements to the members' Equity Plan were implemented after receiving almost unanimous support at the fall Annual Meeting. Changes in plan accounts are illustrated in note 11 to the financial statements. During 1997, it is expected that the first

Preferred Class A and C shares will be issued, as members are encouraged to reinvest patronage in shares that pay a competitive dividend, can be used tax effectively, and are redeemable under certain circumstances. It was noteworthy that improved earnings and changes to the Equity Plan elicited stronger member confidence in the Pool. This confidence is reflected in the increased commitment to the program of loans from members and staff, which increased from $47.1 million in 1995 to $50.5 million in 1996 after having declined from $49.9 million in 1994.

As the Pool's profits increase and with the Equity Plan in place, it is expected that stakeholder interest in the form of loans, preferred shares, revolving equity and retained earnings will increase strongly in the next few years.

The Pool believes the funds provided from operations, coupled with the Pool's available lines of credit, are sufficient to meet its foreseeable cash requirements.

RISK INHERENT IN THE BUSINESS

The Pool purchases agricultural commodities at prices determined by local and export markets. For commodities in which applicable futures markets exist, the price is generally expressed in relation to current futures market values, referred to as the 'basis'. The pricing basis for purchases is determined by contracted or projected sales values as well as local competition, and considers costs which are expected to to be incurred by the Pool from the time the grain is acquired until it is moved into sales position. The difference between the basis on purchases and basis on sales, after expected costs are deducted, is known as 'basis risk'.

To manage the risk of general fluctuations in grain prices, the Pool uses futures markets, where practical, or undertakes "back-to-back" buying and selling. Basis risk exposure is also managed through back to back transactions although this is often not practical and the Pool is required to establish purchase or sales basis levels on historical data and projected market conditions.

The Pool has limited price risk associated with the procurement of grain purchased for the Canadian Wheat Board. Full reimbursement is received from the CWB of the initial price paid by the Pool to farmers on its behalf, as well as for storage and interest costs.

The Pool manages interest rate risk of its short-term borrowing using 30, 60, and 90 day instruments. The majority of interest rate exposure is naturally hedged through the program of long-term financing.

Foreign currency transaction risk is managed using future currency contracts or forward exchange contracts.

Environmental risks faced by Alberta Pool are mainly those associated with the storage and marketing of fertilizers and crop protection products. To ensure operations are carried out in compliance with environmental liabilities, a Corporate Policy, a set of environmental code of conduct principles and programs, has been established and put into place.

Return to Stakeholders

Patronage Allocation

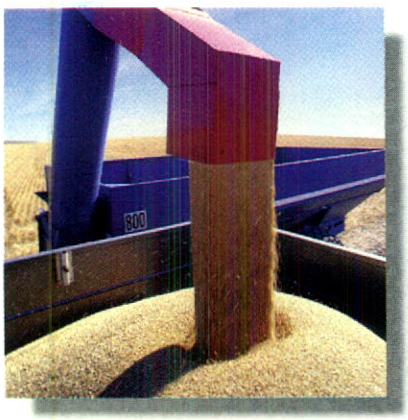
It is critical that a reasonable balance is struck between building permanent equity and allocating earnings to members. After careful review of the year's results, the Board of Directors is proposing to allocate 30% of net earnings to retained earnings with the remaining 70% allocated to members. Implementation of the new equity plan offers members the opportunity to participate in the grain, special crops, beans, seed, and agro earnings pools. The calculations below illustrate the expected payments from each of the earnings pools.

Net Earnings (000's)	$28,248
Less: 30% Allocation to Retained Earnings	8,475
Total	$19,773

Earnings Pool	Allocation Base	Total Allocation	Allocation per Unit
Grain	Tonnes delivered	$13,330	$2.59 / tonne
Special Crops	Tonnes delivered	93	$1.20 / tonne
Beans	Tonnes delivered	86	$3.75 / tonne
Seed	$ value of deliveries	81	$0.58/$100 of deliveries
Agro	$ value of purchases	6,183	$3.16/$100 of purchases

After calculation of each member's patronage allocation and the deduction of applicable withholding taxes, the allocation will be made on the following basis:

- *20% refunded as cash*
- *40% credited to revolving equity*
- *40% credited to long-term equity*



Performance Enhancement Program (PEP)

The 1995-96 Crop Year marked the implementation of the Performance Enhancement Program (PEP). This program is designed to recognize and compensate employees for the achievement of certain corporate and team performance targets, and to further motivate them to strive for excellence and positive business results. As Alberta Pool achieves its overall corporate performance objective, the PEP program provides performance awards to employees.

Asset management is a key focus for Alberta Pool. This focus resulted in Return on Assets (ROA) being chosen as the performance measurement for the PEP program. Longer term, the target ROA is set at a minimum of 10.7%. As the Pool is currently going through significant organizational restructuring and financial re-focus, it was felt a payout would be appropriate if Alberta Pool achieved controllable earnings of $13 million. The calculations below show that the controllable earnings target was met and $1.8 million will be available for payment.

Controllable Earnings (000's)

Net Earnings		$28,248
Add back:		
Estimated PEP payout included in net earnings		1,800
Non-recurring items		1,843
Unusual items		
Writedown of property value	4,750	
Recovery of shares from an affiliate	(3,687)	
Writedown of investment in Drummond Brewing	599	1,662
		33,553
Deduct: W.C.F.L. earnings		19,434
		$14,119

Management Report

The accompanying consolidated financial statements of Alberta Wheat Pool and its subsidiaries together with other information contained in this annual report have been prepared by Management, who have full responsibility for them, and approved by the Board of Directors. The statements reflect the results for the year ended July 31, 1996, and the financial status of the organization as at that date.

Management's responsibility includes ensuring that the financial statements are presented in accordance with generally accepted accounting principles, and that appropriate systems of internal control are in place to provide reasonable assurance as to the reliability of the financial information, as well as the safety of all of the organization's assets. The Board of Directors' approval of the financial statements and related information is carried out principally through its Audit and Finance Committee which reviews them with Management and recommends their approval by the Board.

These consolidated financial statements have been examined by the Members' auditors, Deloitte & Touche, whose report is presented separately. Concurrent with their examination, the auditors had full access to the Audit and Finance Committee on all matters pertaining to the financial presentation and internal controls, as well as other related issues.

G.E. Cummings
Chief Executive Officer

G.D. Southwood
Chief Financial Officer

Auditors' Report

To the Members of Alberta Wheat Pool:

We have audited the consolidated balance sheet of Alberta Wheat Pool as at July 31, 1996 and the consolidated statements of operations, retained earnings and changes in cash for the year then ended. These financial statements are the responsibility of the Co-operative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Co-operative as at July 31, 1996 and the results of its operations and the changes in financial position for the year then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
September 30, 1996

Deloitte & Touche
Chartered Accountants

Consolidated Balance Sheet

As At July 31, 1996

	1996 $(000s)	1995 $(000s) (restated)
ASSETS		
Current Assets		
Cash	30,765	2,017
Accounts receivable	178,654	168,092
Inventories (Note 5)	208,599	171,008
Prepaid expenses	8,898	7,957
	426,916	349,074
Property and Equipment (Note 6)	183,290	182,269
Investments and Memberships (Note 7)	12,817	11,739
Other Assets	2,580	2,321
Intangible Assets	204	458
	625,807	545,861
LIABILITIES		
Current Liabilities		
Cash tickets outstanding	72,233	41,247
Short-term loans	60,969	146,823
Accounts payable	100,358	94,940
Taxes payable	5,737	1,162
Current maturity of long-term debt	858	639
	240,155	284,811
Loans from Members and Staff (Note 8)	50,508	47,073
Long-Term Debt (Note 9)	126,545	27,403
Other Long-Term Liabilities (Note 10)	19,954	19,610
Minority Interest	4,774	4,625
	441,936	383,522
MEMBERS' EQUITY (Note 11)		
Equity Allocated to Members	118,419	115,902
Retained Earnings	37,204	39,537
Net Earnings	28,248	6,900
	183,871	162,339
	625,807	545,861

APPROVED ON BEHALF OF THE BOARD

Alex Graham

T.A. Graham, Director

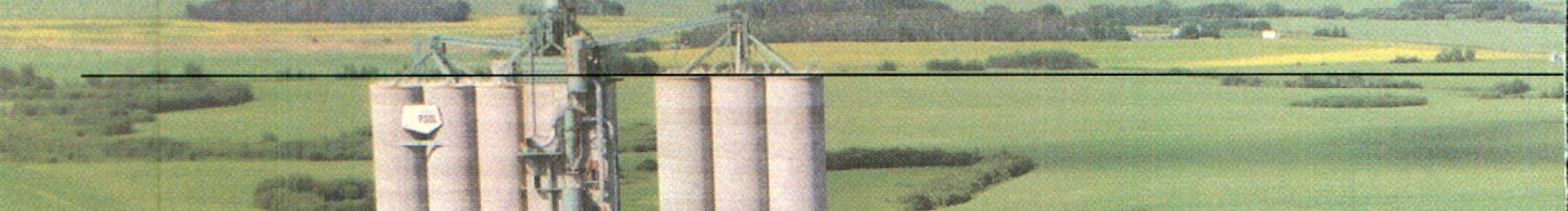
John Pearson.

J.F. Pearson, Director

Consolidated Statements of Operations and Retained Earnings

For the Year Ended July 31, 1996

	1996 $(000s)	1995 $(000s) (restated)
Revenue		
Sales and other operating revenue	2,128,120	2,036,631
Cost of sales	1,883,931	1,802,907
	244,189	233,724
Expenses		
Human resources	94,672	92,063
Other operating	23,656	22,084
General and administrative	19,005	15,534
Depreciation and amortization	19,134	15,849
Interest	11,903	15,032
Repairs and maintenance	10,652	12,993
Property taxes	10,305	10,449
Rentals	8,000	8,329
	197,327	192,333
Earnings from operations	46,862	41,391
Earnings attributable to others (Note 12)	(8,358)	(10,763)
Earnings before the following:	38,504	30,628
Unusual items (Note 13)	(1,662)	(23,760)
(Provisions for) recovery of taxes (Note 14)	(8,594)	32
NET EARNINGS	28,248	6,900
Retained earnings, as previously reported	36,860	32,591
Prior period adjustments (Note 15)	2,677	(5,236)
Retained earnings, restated	39,537	27,355
Allocation of prior years' earnings (restated)	(2,333)	12,182
Retained earnings, end of year	37,204	39,537



Consolidated Statement of Changes in Cash

For the Year Ended July 31, 1996

	1996 $(000s)	1995 $(000s) (restated)
Cash provided by (used in):		
Operating Activities		
Earnings from operations	46,862	41,391
Items not affecting cash		
Depreciation and amortization	19,134	15,849
Earnings attributable to others	(8,358)	(10,763)
(Gain) loss on sale of property and equipment	(368)	1,609
Current provision for taxes	(8,594)	(798)
Minority interest	149	94
Equity earnings from investments	(621)	(105)
	48,204	47,277
Change in non-cash working capital items	(38,882)	20,644
	9,322	67,921
Financing Activities		
Proceeds from debt offering	100,000	-
Repayment of long-term debt	(858)	(7,897)
Increase (decrease) in loans from members and staff	3,435	(2,872)
Increase in reclamation costs	344	-
Members' equity payments	(6,716)	(2,465)
	96,205	(13,234)
Investing Activities		
Recovery of shares and loan to affiliate	3,687	5,113
Proceeds on disposition of property and equipment	2,591	686
Increase in investments and memberships	(1,415)	(738)
Purchase of property and equipment	(26,321)	(42,026)
Increase in other assets	(453)	(682)
	(21,911)	(37,647)
INCREASE IN CASH	83,616	17,040
Cash, beginning of year	(186,053)	(203,093)
Cash, end of year	(102,437)	(186,053)

Cash is defined as cash tickets outstanding and short-term loans, net of cash.

Notes to the Consolidated Financial Statements

For the Year Ended July 31, 1996

tabular amounts in $ thousands, unless otherwise indicated

1. NATURE OF BUSINESS

Alberta Wheat Pool ("the Co-operative") is incorporated by a special Act of the Alberta Legislature and is primarily engaged in the supply of services to the Agriculture industry. A significant portion of its transactions is with members of the Co-operative.

As a co-operative, net earnings not retained are returned to members as patronage refunds ("distributable net earnings") based on the members' business with the Co-operative. Distributable net earnings are divided into five earnings pools: grain, seed, beans, special crops, and agro. It is management's view that all operations of the Co-operative and affiliates is integrated with these classes of earnings, and as such, no segmented information is specifically included in these notes.

2. CHANGE IN ACCOUNTING POLICY

During the year, the Co-operative changed its method of accounting for joint ventures to conform with a change in generally accepted accounting principles requiring proportionate consolidation for joint ventures. The change has been applied retroactively and prior periods have been restated to reflect this change. The effect of this change within these statements has been disclosed in Note 4.

3. ACCOUNTING POLICIES

In preparing its financial statements the Co-operative follows generally accepted accounting principles. The following is a summary of the significant accounting policies adopted by the Co-operative:

Principles of consolidation

These consolidated financial statements include the accounts of Alberta Wheat Pool and the following companies:

Subsidiaries:	Percentage Ownership
Alberta Industrial Mustard Company Limited	50%
Alberta Wheat Pool Financial Corporation	100%
Demeter (1993) Inc.	100%
Pacific Elevators Limited	60%
Prairie Sun Grains Ltd.	100%
Western Pool Terminals Ltd.	60%

Joint Ventures:	Percentage Ownership
Western Co-operative Fertilizers Limited (WCFL)	33%
XCAN Grain Pool Ltd.	33%

For the subsidiaries, 100% of their accounts are included with a provision for minority interest. For the significant joint ventures, the Co-operative includes a pro rata share of the joint ventures' accounts at a rate that approximates the above noted ownership percentage in the respective joint ventures. All significant inter-company transactions have been eliminated.

Property and equipment

Property and equipment are recorded at cost less investment tax credits earned. Depreciation is charged on either a straight-line or a declining balance basis at annual rates varying from 4% to 30%, designed to amortize the cost of the assets over their useful lives.

Investments and memberships

The Co-operative uses the equity accounting method for recording the carrying value of its investments in affiliated companies and joint ventures not considered to be significant for purposes of the proportionate consolidation.

Portfolio investments are stated at cost less provisions for permanent decline in value when appropriate.

Goodwill

Goodwill and other intangibles are amortized on a straight-line basis, over a period not exceeding five years.

Recognition of revenue

Handling revenues related to country and terminal elevators are considered earned at the time that shipments are made from the facilities.

Revenues from grain overages or shortages registered in advance at the terminal elevators are recorded at the time of registration.

Gains or losses on the open purchase and sale contracts are recognized at the time of completion of sale.

Foreign currency translation

The Co-operative has investments in integrated foreign operations. The temporal method is used to translate the financial statements of foreign operations.

Income taxes

The Co-operative follows the tax allocation method of accounting. Taxes otherwise payable for the year have been reduced primarily through the provision of estimated patronage dividends.

Notes to the Consolidated Financial Statements

For the Year Ended July 31, 1996

tabular amounts in $ thousands, unless otherwise indicated

4. INTEREST IN JOINT VENTURES

As described in note 3, the Co-operative includes in its accounts the following amounts which reflect the Co-operative's proportionate share of its significant joint ventures.

	1996	1995
Consolidated Balance Sheet		
Cash	25,928	(165)
Other current assets	30,572	46,985
Property and equipment	10,559	7,971
Other assets	4,304	270
Current liabilities	(27,199)	(31,660)
Other long-term liabilities (Note 10)	(19,954)	(19,610)
Net investment in joint ventures	24,210	3,791
Consolidated Statement of Operations		
Sales	447,197	506,434
Cost of sales	(410,916)	(472,524)
Operating expenses	(13,322)	(9,113)
Interest expense	(333)	(3,637)
Unusual item	-	(24,600)
Net earnings (loss)	22,626	(3,440)
Consolidated Statement of Changes in Cash		
Operating activities	35,796	19,788
Financing activities	345	(8,664)
Investing activities	(10,048)	(4,879)

The above information is presented to enable the reader to understand the effect of proportionate consolidation of joint ventures on these statements and to facilitate comparison to the prior year's financial statements.

Cash balances are largely comprised of funds on deposit within WCFL. These balances are not immediately available to reduce Alberta Wheat Pool's short-term loans.

These balance sheet accounts are proportionately consolidated on a basis consistent with the ownership interest in the consolidated entities. Earnings from these entities is normally distributed in cash in proportion to the business transacted and therefore the distributed amount is reported as earnings.

5. INVENTORIES

	1996	1995
Grain purchased for sale to the Canadian Wheat Board, valued at established initial prices less unearned handling revenues and costs yet to be incurred	130,190	70,050
Grains and oilseeds purchased for the Co-operative's own account are valued at cost, including future gains and losses on executed purchase and sales contracts	38,068	42,297
Other inventories, including special crops, seed and agro supplies, valued at the lower of cost and net realizable value	40,341	58,661
	208,599	171,008

6. PROPERTY AND EQUIPMENT

Property and equipment are classified by operating division as follows:

	1996			1995
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Country facilities	240,775	134,338	106,437	99,786
Terminal operations	148,152	89,648	58,504	60,982
Joint ventures	39,650	29,091	10,559	7,971
Other	25,484	17,694	7,790	13,530
	454,061	270,771	183,290	182,269

During 1996, interest of $192,000 (1995 - $935,000) was capitalized on major projects under construction.

7. INVESTMENTS AND MEMBERSHIPS

	1996		1995	
	% Ownership		% Ownership	
Equity investments				
Lloydminster Joint Venture	50.0%	3,583	50.0%	3,227
General Mills Sweetgrass Grain Partnership	50.0%	1,207	-	-
Other	-	3,769	-	2,322
		8,559		5,549
Notes receivable				
Ridley Grain Ltd.	-	3,376	-	5,273
Portfolio investments and memberships	-	882	-	917
		12,817		11,739

8. LOANS FROM MEMBERS AND STAFF

Substantially all loans from members and staff are on a demand basis. However, experience has shown that such obligations are outstanding for longer than one year and accordingly they are not included in current liabilities. Interest paid during the year amounted to $3,076,000 (1995 - $3,359,000).

9. LONG-TERM DEBT

	1996	1995
Revolving credit and term loan borrowings		
Series A and B notes	100,000	-
Revolving term loan	15,000	15,000
Term loans	11,969	12,201
Mortgage		
6-5/8% due December 1996	434	841
	127,403	28,042
Less current maturity	858	639
	126,545	27,403

In 1995, the Co-operative entered into a fixed rate financing totalling $100,000,000 comprised of $77,000,000 in Series A Notes and $23,000,000 in Series B Notes. The Series A Notes have a 15-year term and bear interest at a rate of 8.75% per annum, calculated semiannually. These notes are repayable in equal installments in December of the years 2001 through 2010. Series B Notes have a 25-year term with a 9.30% annual interest rate, calculated semiannually, and are repayable in equal installments in December of the years 2011 through 2020.

The revolving term loan facility has a one-year revolving period during which interest is payable at prime, bankers' acceptances plus 5/8% or London Inter-Bank Offer Rate plus 5/8%. On an annual basis the revolving period may be extended an additional year or converted to a reducing four-year term loan. Upon conversion to a reducing term loan, interest is payable at prime, bankers' acceptances plus 3/4% or London Inter-Bank Offer Rate plus 3/4%. The loan, upon conversion, is repayable in quarterly installments of $562,500 with the balance due at the end of the four-year term.

Term loans are comprised of two facilities. The first facility of $10,000,000 bears interest at 10.70% per annum. The full principal is due in January 1999. A second facility is a $1,969,000 interest free four-year term loan. Installment payments of varying amounts are due in each of the years 1997 through 1999.

The mortgage is secured by the property and equipment of Western Pool Terminals Ltd.

Interest on long-term debt was $7,465,000 (1995 - $2,036,000).

The maximum annual repayments of long-term debt over each of the next five years are as follows:

1997 - $858 1998 - $3,603 1999 - $12,442 2000 - $2,250 2001 - $8,250

10. CONTINGENCIES

Incident to the operation of its business, various lawsuits and claims are pending by and against the Co-operative. The Co-operative has adequately provided for the expected final determination of these claims.

The Co-operative has an interest of 33% in the ownership of a joint venture operation, WCFL, whose activities include the purchase and distribution of fertilizer. In 1987, the joint venture operation discontinued its operation of manufacturing fertilizer at its two processing plants. Subsequent to the closures, WCFL determined that site reclamation and decommission costs will be incurred within the next few years. Accordingly, based on an estimate of those costs developed by an independent consultant, WCFL recorded the maximum estimate as a provision and as a charge against earnings. The range of the estimate will evolve over time. Any subsequent changes will be charged against income in the year in which the revision occurs. The Co-operatives share of the estimate in 1996 is $19,954,000 (1995 - $19,610,000).

Notes to the Consolidated Financial Statements

For the Year Ended July 31, 1996

tabular amounts in $ thousands, unless otherwise indicated

11. MEMBERS' EQUITY

The Co-operative implemented a new equity plan during the year. It consists of revolving equity accounts, long-term equity accounts, and three classes of preferred shares. On July 31, 1996 the transition to the new equity plan took place. The balance of all outstanding Members' surplus accounts was converted to revolving equity while Members' reserve accounts were converted 50% to revolving equity and 50% to long-term equity.

Revolving equity accounts are intended to grow through allocation of 40% of each year's patronage allocation after deduction of withholding tax. Installment payments from revolving equity will begin in 1998 and will be in the form of Class B shares. For 1998 and the years following, the repayment of each year's allocation will be made equally over a 10-year period beginning in the year subsequent to the allocation.

Long-term equity accounts will be credited with 40% of each year's patronage allocation after deduction of withholding tax. Installment payments of long-term equity will be made equally over a 20-year period with the first payment in the year 2015. All payments of revolving equity accounts will be made in the form of Class B shares.

SHARE CAPITAL

An unlimited number of Class A, B and C non-voting preferred shares are authorized but as at July 31, 1996, no shares have been issued.

EQUITY ALLOCATED TO MEMBERS

	1996					1995
	Reserve	Surplus	Long-term Equity	Revolving Equity	Total	Total
Members' equity at beginning of year	63,364	52,538	-	-	115,902	118,367
Allocation of previous year's earnings	8,154	-	-	-	8,154	-
Transfers	(6,614)	6,614	-	-	-	-
Members' equity redeemed	(323)	(5,314)	-	-	(5,637)	(2,465)
Members' equity at end of year	64,581	53,838	-	-	118,419	115,902
As restated, under new equity plan at July 31, 1996	(64,581)	(53,838)	32,291	86,128	-	-
Members' equity at end of year	-	-	32,291	86,128	118,419	115,902

12. EARNINGS ATTRIBUTABLE TO OTHERS

The Co-operative has investments in companies for which it is the majority shareholder but not the sole owner. The pro rata income of these affiliated companies attributable to other shareholders is allocated to the other shareholders as minority interest. In the case of Pacific Elevators Limited, the earnings are not distributed on the basis of share ownership but rather are distributed pursuant to a signatory shippers agreement which distributes earnings on the basis of volumes handled through the terminal.

Net earnings (loss)	1996	1995
Pacific Elevators Limited		
Allocation to signatory shippers	8,159	10,670
Minority interest		
Alberta Industrial Mustard Company Limited	195	97
Western Pool Terminals Ltd.	4	(4)
	8,358	10,763

13. UNUSUAL ITEMS

	1996	1995
Recovery of shares and loans to an affiliate	3,687	5,113
Write down of property value	(4,750)	-
Provision for write down of the carrying value of the investment in Drummond Brewing Company Ltd.	(599)	(4,273)
Provision for decommissioning and reclamation in WCFL	-	(24,600)
	(1,662)	(23,760)

14. INCOME TAXES

The provision for income taxes differs from the Canadian federal statutory rate as follows:

	1996		1995	
		%		%
Canadian statutory tax rate	16,439	44.62	3,435	44.92
Small business deduction	(37)	(0.10)	(55)	(0.72)
Permanent differences	1,211	3.29	3,818	49.93
Patronage dividends estimated	(11,161)	(30.29)	(4,464)	(58.38)
Timing differences	196	0.53	(1,936)	(25.32)
Other	1,946	5.28	-	0.00
	8,594	23.33	798	10.43
Deferred income taxes	-	-	(830)	(10.85)
	8,594	23.33	(32)	(0.42)

There are unresolved income tax issues relating to prior periods yet to be reassessed by Revenue Canada, which could impact future income tax expenses. The Co-operative is actively defending its position and the amount of the reassessment is indeterminable at this time.

15. PRIOR PERIOD ADJUSTMENTS

In accordance with a reassessment by Revenue Canada, certain expenditures have been disallowed and are now considered loans. This has resulted in a corresponding restatement of opening retained earnings in the amount of $7,349,000.

In addition, the Co-operative, in accordance with the change in accounting policy (note 2) is required to include its proportionate share of earnings and losses in the joint venture for the years when the joint venture reported a shareholder deficit. The opening 1995 retained earnings has been adjusted by the cumulative share of net losses in the amount of $12,585,000. This adjustment includes $4,172,000 of earnings reported in the comparative figures for July 31, 1995.

	1996	1995
Prior period adjustments		
Reassessment of loans to WCFL	7,349	7,349
Accumulated losses in WCFL	(4,672)	(12,585)
	2,677	(5,236)

16. COMMITMENTS

The Co-operative leases a variety of property and equipment under various operating leases which expire at various dates up to 2001. Future lease payments in each of the next five years are as follows:

1997 - $2,829 1998 - $2,396 1999 - $1,625 2000 - $1,495 2001 - $1,090

17. PENSION PLANS

The Co-operative has defined benefit pension plans covering substantially all of its employees. The most recent actuarial valuation of the Co-operative's obligation was made as of January 1, 1996 and indicated an obligation of $66,225,000. Based on the January 1, 1996 valuation, an actuarial projection of the obligation at July 31, 1996 is $65,901,000 (1995 - $66,164,000). The market value of the assets at July 31, 1996 is $69,815,000 (1995 - $69,526,000).

18. RELATED PARTY TRANSACTIONS

The Co-operative operates as a co-operative and, as such, conducts a substantial portion of its business activities with related parties consisting primarily of the Co-operative's shareholder members and companies owned or significantly influenced by the Co-operative together with other western Canadian co-operatives. In addition to transactions with members, including grain purchases and sale of farm products, the Co-operative acquires from and sells to other related parties certain other goods and services in the normal course of business.

19. COMPARATIVE FIGURES

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

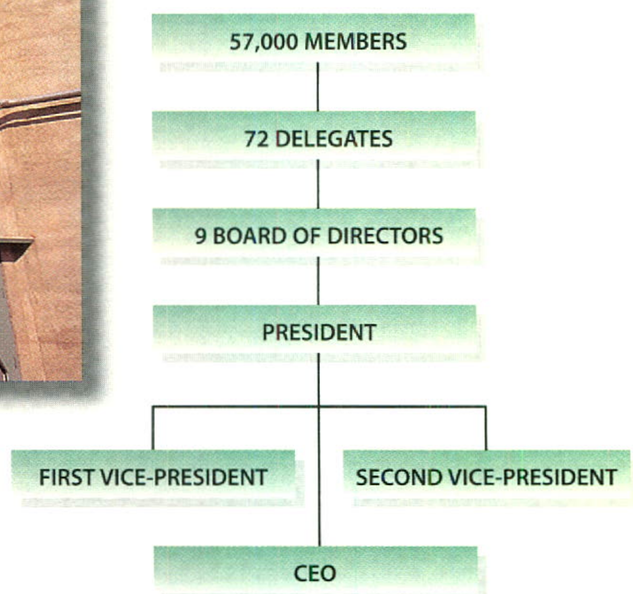
Democratic Structure

As a cooperative, Alberta Pool is a democratic organization controlled by its members. The vast majority of Alberta Pool members are farmers who own or rent land. Members actively participate in setting policies and making decisions about the cooperative and are solely responsible for electing a delegate to represent their sub-district for a three-year term.

Alberta Pool's 72 delegates meet to make decisions and establish policies which govern the operation of Alberta Pool's business. These policies are then implemented by a nine-member board of directors who are elected by the delegates within their region.

High speed grain dryers at Alberta Pool's Legacy Junction and Smoky River facilities can handle 3,000 bushels per hour, providing the opportunity for early harvesting and better grades.

The board of directors hires Alberta Pool's chief executive officer, and elects members of the board to serve as president, first vice-president and second vice-president. The president and first vice-president are the only elected officials who hold full-time, paid positions. The board of directors is responsible for providing overall guidance to the CEO and senior management team and is accountable to the membership for the successful operation of Alberta Pool.



Delegates 1996-97

District One

101 Richard Sauer .... Maleb
102 Ross H. Ford. .... Coutts
103 Gary P. Schneider.......... Raymond
104 Thomas Neilson .... Cardston
105 Mutt Tsukishima .... Coaldale
106 Bryan R. Dillenbeck.......... Foremost
107 John Zeinstra.......... Picture Butte
108 Lynn Jacobson .... Enchant

District Two

201 Howard Paulsen .... Stavely
202 Alan K. Pasolli .... Champion
203 Michael Monner.......... Milo
204 Richard L. Percifield .... Blackie
205 Daryl J. Winkler .... Calgary
206 Gordon Moulton .... Hussar
207 Lionel M. Bird.......... Carstairs
208 Robert L. Duhn.......... Delacour

District Three

301 Marvin A. Fischer.......... Hilda
302 Dean Evens.......... Oyen
303 Michael F. Gyorfi .... Bow Island
304 Gordon R. Smillie.......... Bassano
305 A. Laurie Reiffenstein ..... Drumheller
306 Randy R. Gridley.......... Big Valley
307 K. Barry McLeod.......... Delia
308 Donald J. Anderson.......... Consort

District Four

401 Lorne Olson .... Provost
402 Edward R. Jackson .... Irma
403 Richard Haydu.......... Paradise Valley
404 Dwayne Cooper.......... Kitscoty
405 Michael Bury.......... Mannville
406 Kevin Loveseth.......... Viking
407 Robert Ponto .... Galahad
408 Harvey R. Thomas.......... Alliance

District Five

501 Richard L. Farmer.......... Acme
502 Brian Parry .... Three Hills
503 George Steckler ....Didsbury
504 Dennis Hoppins.......... Huxley
505 Douglas Scheerschmidt......... Stettler
506 Robert E. Northey .... Red Deer
507 Vacant
508 Dick Wymenga.......... Leslieville

District Six

601 John A. Lawrence.......... Clandonald
602 Pat Gordeyko .... Two Hills
603 Arden Ziegler.......... Vegreville
604 David Fedun.......... Andrew
605 Peter W. Galloway.. Ft. Saskatchewan
606 Leonard Forcade .... Legal
607 Dwayne M. Severin .... St. Paul
608 Kenneth R. Shalka.......... Fort Kent

District Seven

701 Donald W. Lunty.......... Forestburg
702 James S. Holmberg.......... Rosalind
703 Earl Rasmuson .... Gwynne
704 J. Brian Walker.......... Wetaskiwin
705 Lars E. Rude .... Tofield
706 Kenneth Appleby.......... Tofield
707 Randy B. Zutz.......... Stony Plain
708 Earl Hagman .... Mayerthorpe

District Eight

801 Orest Sebzda .... Waskatenau
802 Russel F. Ewaskow.......... Thorhild
803 Charles L. Jenkins .... Grassland
804 David Felstad .... Dapp
805 Lawrence L. Miller .... Barrhead
806 William Marx .... High Prairie
807 Rene Blanchette .... Girouxville
808 Raymond D. Larison .... Peace River

District Nine

901 Bryan Woronuk .... Rycroft
902 Gilbert Balderston.......... Sexsmith
903 Wayne Longson.......... Beaverlodge
904 Garry Smolik.......... Dawson Creek
905 Doug J. Parker .... Cecil Lake
906 Ralph G. Moskalyk.......... Fairview
907 Leonard Anderson .... Grimshaw
908 William S. Fedeyko .... High Level

Corporate Information

Board of Directors

President
T.A. Graham .... Spirit River

First Vice-President
J.F. Pearson .... Donalda

Second Vice-President
N.D. Silver .... Huxley

G.A. Groeneveld .... High River

B.G. Lindeman .... Milk River

M.A. McNaughton .... Rumsey

D. Nanninga .... Barrhead

A.L. Oberg .... Forestburg

A.L. Pidruchney .... Myrnam

Corporate Secretary
J.R. Anderson

In a deregulated environment, railways will provide incentives for quick train turn-around. Alberta Pool's new, high through-put grain facilities have the capacity to load 52 cars in eight to ten hours.

Head Office

Alberta Pool
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Calgary, Alberta, Canada T2P 2P5
Telephone: (403) 290-4910
Facsimile: (403) 290-4839
Internet Home Page: http://www.awp.com

Management Executive

G.E. Cummings, FCMA
Chief Executive Officer

B.D. DuPont
Director, Human Resources and Administration

R.E. Gorst
General Manager, Grain Division

D.V. Riddell
Director, Corporate Affairs

A.F. Rodenburg
General Manager, Agri-Business Division

G.D. Southwood, C.A.
Chief Financial Officer

Financial Executive

L. J. Gracie, C.A.
Controller

B.A. Heinrich, CMA
Treasurer

Subsidiaries/Affiliates

Alberta Industrial Mustard Company Limited
Canadian Pool Agencies Limited
Demeter (1993) Inc.
Maalsa Investments Limited
Pool Commodity Trading Services
Pool Insurance Company
Pacific Elevators Limited
Prairie Sun Grains Ltd.
Prince Rupert Grain Ltd.
RADSS Technologies
Western Co-operative Fertilizers Limited
XCAN Grain Pool Ltd.

Joint Venture Partners

General Mills Inc.
Prairie West Terminals Ltd.
UFL Foods Ltd.
Wilbur-Ellis Company of Canada Ltd.

Legal Counsel

MacKimmie Matthews

Auditors

Deloitte & Touche

Bankers

Bank of Montreal
Toronto Dominion Bank

Corporate Profile

Alberta Pool is a farmer-owned cooperative that handles and markets grain, seeds and oilseeds both domestically and internationally. Fully integrated grain handling, marketing and agri-business services are offered to farmers through a network of grain elevators and agro centres located throughout the agricultural regions of Alberta and northeastern British Columbia. Grain is exported to international customers through the Pool's terminals on the West Coast.

Alberta Pool is a world leader in developing grain handling technology and has introduced new, improved crop varieties to benefit its farmer-members and respond to customer demands for seed and crop expertise. The Pool is also involved in many expanding agricultural markets such as mustard, peas, beans and oats for race horses.

Organized in 1923, Alberta Pool today has 57,136 members and employs 1,366 people at locations throughout Alberta, northeastern British Columbia, Winnipeg, Vancouver and Minneapolis. Since its creation, the Pool has handled close to 194 million tonnes and returned almost $390 million to its member-owners.

Alberta Pool's state-of-the-art Smoky River grain handling facility provides a high speed, automated unloading system and two delivery areas to reduce unloading time.

Our Commitment to the Environment—To support our corporate commitment to environmental responsibility and conservation of our resources, this year's Annual Report is printed on recycled paper. It was printed with a vegetable-based ink containing canola oil that performs exceptionally well and produces brighter, cleaner colours. At Alberta Pool, we incorporate environmental considerations into all our operations, including the production of this Annual Report.

Concept & Design – Alberta Pool, Corporate Affairs

Photography – Chris Beeger, Larry Seifert

Printed in Canada

Alberta Pool's high throughput grain facility at Legacy Junction near Camrose (front and back cover) is a slip-form concrete elevator with total storage of 30,000 tonnes. With a receiving capacity of 20,000 bushels per hour and a shipping capacity of 30,000 bushels per hour, the facility is one of the fastest in the industry today.