

ALBERTA WHEAT POOL ANNUAL REPORT 1987



"Together, our Mission is to competitively produce, process and aggressively market diverse, world class agricultural products, and to respond to the changing demands of our customers and our environment with integrity so we share in an enhanced social and economic future."

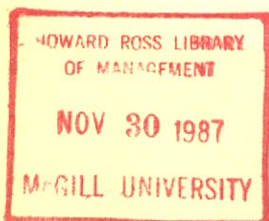


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CORPORATE INFORMATION

Board of Directors

D. E. Livingstone
President
Vermilion

R. C. Schmitt
First Vice-President
Milk River

T. A. Graham
Second Vice-President
Spirit River

A. F. Wagner
Lacombe

A. L. Aasen
Rainier

H. N. Anderson
Barrhead

P. J. Durnin
Kathryn

J. F. Pearson
Donalda

A. L. D. Pidruchney
Myrnam

D. V. Riddell
Corporate Secretary

Management Executive

J. W. Madill
Chief Executive Officer

G. J. Dewar
Director - Terminal Operations

B. A. Friesen
Director - Corporate Affairs

A. Kowalchuk
Director - Country Operations

J. E. Sherwood
Director - Corporate Development

T. M. Volk
Director - Finance and Subsidiaries

D. G. Ball
Manager - Internal Audit

G. R. Sargent
Executive Assistant

Legal Counsel

MacKimmie Matthews

Auditors

Touche Ross and Co.

Bankers

Bank of Montreal
Royal Bank of Canada
Bank of Nova Scotia
Canadian Imperial Bank of Commerce
Toronto Dominion Bank
Bank of British Columbia

Head Office

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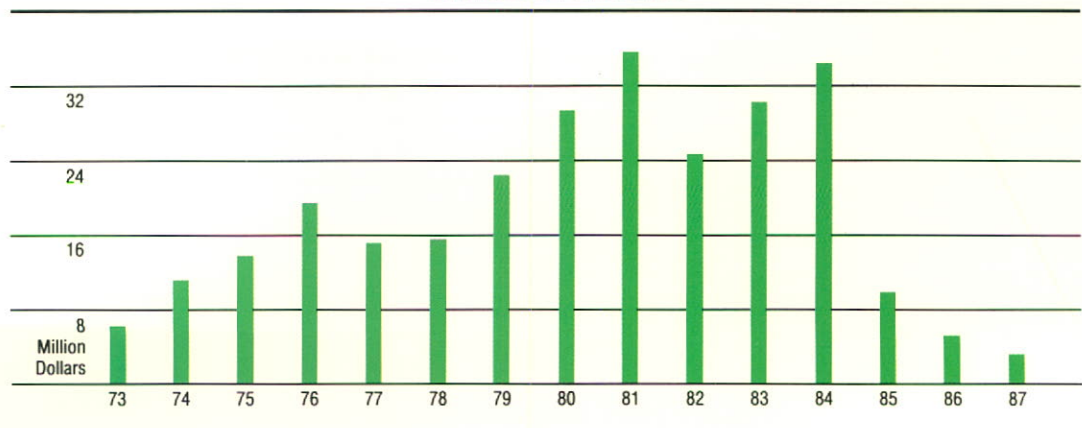
CORPORATE HIGHLIGHTS

The Alberta Wheat Pool is a farmer-owned cooperative providing fully integrated grain handling, grain marketing and farm supply services to its members. Pool country elevators are located throughout the grain growing regions of Alberta and northeastern British Columbia. Grain exports are handled through the Pool's Vancouver terminal, the largest on the West Coast. Through associated companies, Alberta Pool is active in West Coast grain terminal operations, export grain marketing, fertilizer sales, and oil exploration. Alberta Pool was organized in 1923 and today has 60,000 members and 1,620 employees. Since its creation, Alberta Pool has handled about 142 million tonnes and has returned \$325 million to its member-owners.

(in \$,000's)	1987	Restated 1986
Gross Revenue	1,012,517	985,133
Earnings Before Income Tax	3,731	5,620
Total Assets	382,640	474,471
Working Capital	80,086	53,741
Financed By:		
Members' Term Loans	51,381	52,272
Long Term Debt	34,093	38,302
Equity	129,190	128,264
Total Funds Invested	214,663	218,838

FIFTEEN YEARS AT A GLANCE

EARNINGS BEFORE TAXES



1986-87 REPORT HIGHLIGHTS AND COMPARISON

	1987	Restated 1986	Restated 1985	Restated 1984	1983
Grain Receipts at Country Elevators (tonnes)	6,656,452	5,178,093	5,191,589	6,825,191	6,810,480
Forage Seed Purchases from Producers (tonnes)	9,904	5,503	4,750	3,981	7,593
Cereal Seed Purchases (tonnes)	17,755	21,270	22,225	17,834	19,130
Percentage of Alberta Grain Deliveries Handled	64.1	64.3	66.4	65.5	66.5
Gross Value of Board Deliveries,					
Other Sales And Revenues	\$1,012,516,547	985,133,305	1,337,759,876	1,522,044,449	1,364,158,673
Farm Supplies Sales (included above)	\$ 128,845,491	145,759,584	156,626,384	148,939,577	125,203,856
Gross Margin	\$ 154,395,144	145,953,996	152,029,455	175,359,600	160,575,706
Total Expenses	\$ 134,401,621	130,024,713	140,448,255	139,377,755	130,182,430
Depreciation	\$ 12,258,411	13,999,191	14,405,662	14,027,338	13,372,628
Earnings Before Taxes	\$ 3,731,423	5,620,242	6,897,918	30,905,951	30,172,682
Current Assets	\$ 248,063,211	309,373,905	272,752,127	321,691,424	353,765,000
Current Liabilities	\$ 167,976,891	255,632,517	226,302,341	251,435,164	282,815,683
Working Capital Before Disposition of Earnings	\$ 80,086,320	53,741,388	46,449,786	70,256,260	70,949,317
Capital Expenditures on Properties & Equipment	\$ 5,969,362	12,703,507	22,132,196	26,341,175	19,417,921
Total Invested in Capital Assets	\$ 264,418,090	286,412,791	276,858,106	257,005,955	231,997,279
Patronage Refunds Distributed					
(out of previous year's earnings)	\$ 2,915,376	8,203,429	29,214,992	26,013,326	18,131,558
Reserves Held By Members	\$ 103,739,975	103,585,351	103,560,328	96,115,100	91,460,667
Percentage of Member Business Prior Year	96.5	97.0	96.8	96.1	95.8
New Members	1,302	1,466	2,036	2,270	2,423
Total Membership	60,308	60,501	60,395	59,691	58,747
Number of Country Elevator Operating Units	305	308	315	323	332
Elevator Capacity (tonnes) - Country	1,580,310	1,606,025	1,650,015	1,690,170	1,724,880
Elevator Capacity (tonnes) - Terminals	481,980	481,980	481,980	481,980	481,980
Number of Employees July 31	1,620	1,621	1,862	1,950	1,908

BOARD OF DIRECTORS' REPORT

A new President and a Board of Directors which welcomed new and capable members took an active role in representing the interests of Alberta farmers at the provincial, federal and international level in 1986/87.

The first task of the new Board was to pick a successor for Allan Macpherson, who was retiring after serving Alberta Pool as President for nine years. Doug Livingstone was chosen to become Alberta Pool's seventh President and soon he and the Board were actively advocating the goals and objectives of Alberta Pool.



Board of Directors

Seated left to right:

R. C. Schmitt,

First Vice President;

D. E. Livingstone,

President;

T. A. Graham,

Second Vice President.

Standing left to right:

A. L. Aasen,

A. L. D. Pidruchney,

A. F. Wagner,

J. F. Pearson,

H. N. Anderson,

P. J. Durnin.

Alberta Pool worked independently and in concert with the other two provincial Pools to promote Delegate-generated policy. Increasingly, Prairie Pools Inc. (PPI), the lobbying arm of the three Pools, created an effective united front to defend Pool interests during many controversial agricultural debates.

The effectiveness of Prairie Pools was strengthened this year by the appointment of Ted Turner, former President of the Saskatchewan Wheat Pool, to the position of Executive Director. Mr. Turner's responsibilities in the new Prairie Pools position will be to promote the agricultural and commercial policies of the cooperatives and to advise and make recommendations to the PPI board regarding current agricultural issues.

Trade talks have been a high profile activity of the federal government this year and Alberta

Pool and PPI have continued to present Prairie farmers' concerns to Canadian government negotiators. Mr. Turner currently sits on the government's International Trade Advisory Committee and Mr. Macpherson is a member of the Sectoral Advisory Group on International Trade. Both of these groups consult with Canadian negotiators regularly so their contribution to the advisory councils is key to presenting the Pools' trade position.

Alberta Pool supports a free trade agreement providing the competitive abilities of grain and oilseed producers aren't impaired by the deal. The Board is currently reviewing the recently announced U.S./Canada Free Trade Agreement.

Alberta Pool, through Prairie Pools Inc., was also represented at the meeting of 14 non-subsidizing agricultural exporters at Cairns, Australia. Alberta Pool's Board realizes the longterm future of Alberta farmers relies on the success of international agricultural policy reform.

It also knows, however, that Pool members can't survive on the hope of longterm reforms so the Board placed emphasis on ensuring the immediate income needs of farmers. The Alberta Pool Board began calling for a deficiency payment in May, 1986, and kept turning up the intensity of the request until on Oct. 3, 1986, the federal government announced a \$1 billion Special Canadian Grains Program. Alberta Pool then worked with the government and other farm groups to ensure the distribution of the funds would be fair and wouldn't distort Prairie agricultural production patterns.

The farm income picture has worsened since the October announcement and Alberta Pool, with the cooperation of other farm groups, has been determining how much government assistance will be needed this winter. The Board has been keeping the request for a 1987/88 deficiency payment constantly before the federal agriculture minister.

The Pools have also made recommendations to various federal committees on how to lower farm input costs, reduce grain handling and transportation expenses, and deal with the growing problem of managing farm debt.

Tax reform was another major issue that had to be analyzed and responded to by Alberta Pool. Alberta Pool's Board identified several concerns and presented them to the

BOARD OF DIRECTORS' REPORT

Federal Standing Committee on Finance and Economic Affairs in September. Alberta Pool's brief pointed out that Alberta farmers strongly support the continued use of cash basis tax reporting for farmers and oppose even a modified form of accrual accounting. The Pool also opposed the elimination of farm income averaging provisions.

The Board made continued representation, without much success, to get the federal government to amend the Western Grain Transportation Act. The recommended amendments would mean significant cost savings to producers. The Board examined and pursued all methods of reducing grain handling and transportation costs which produce net savings for producers.

Alberta Pool met with the Alberta government grain transportation task force chairman to explain that Alberta Pool continues to support the payment of the Crow Benefit directly to the carriers of grain. The provincial government favors paying the Crow Benefit directly to producers. Despite these opposing views, the Alberta Pool Board is striving to strengthen its working relationship with the Alberta government and hopes to build on the success the two groups have had in other areas.

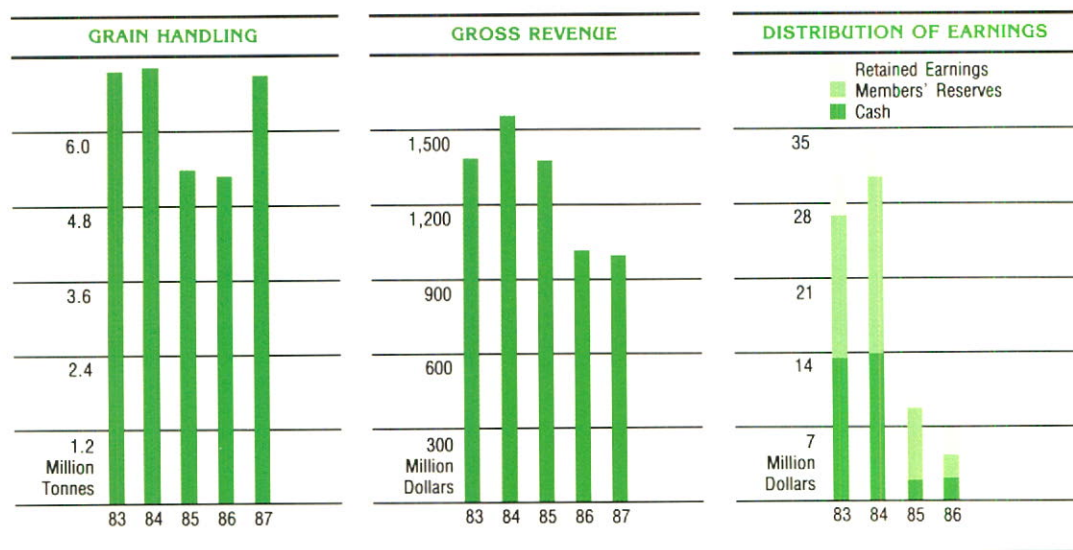
Another contentious issue handled by the Board was the variable rate question. Alberta Pool supports variable rates when it results

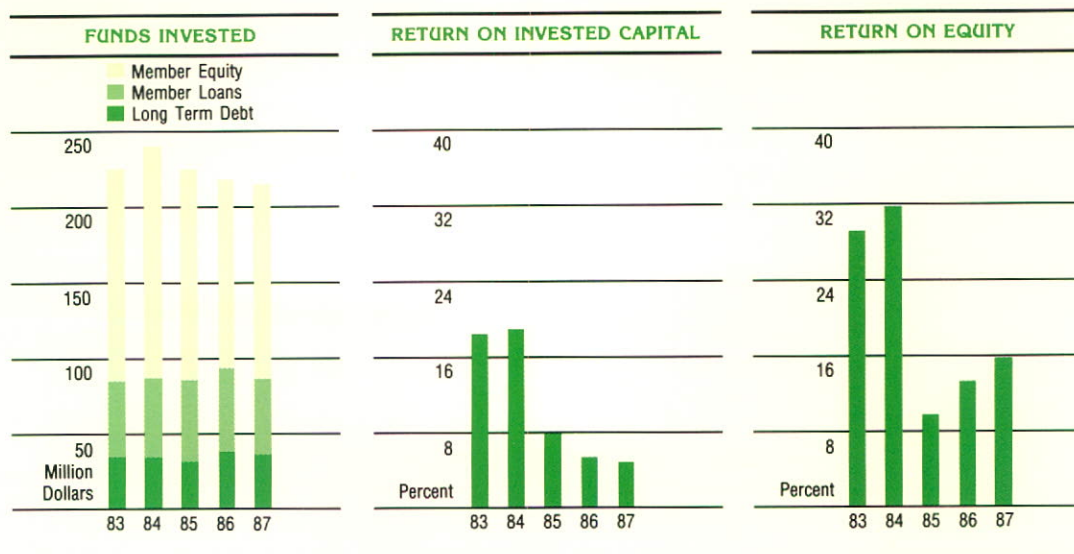
in an efficiency gain to the net benefit of producers. The CN Rail variable rate proposal for the 1987/88 crop year was viewed as not creating significant grain transportation efficiencies and was opposed. Alberta Pool has not applied for the variable rate offered by CN and the cooperative continues to monitor the situation.

In another transportation issue, Alberta Pool sought to ensure the Western Grain Transportation Act would not be adversely affected by the introduction of the proposed National Transportation Act. Some amendments have been made to the Act but Alberta Pool concerns have not been alleviated. The Board will monitor the effects of the Act after it is proclaimed in January, 1988.

In addition to presenting the case of Alberta farmers to various levels of government, the Board also began a comprehensive reappraisal of Alberta Pool's operations. The review began with a detailed survey of Pool member attitudes.

The members' assessment indicated they feel Alberta Pool is their best advocate in farm issue debates and the Pool should place a high priority on defending farmer interests before government. These results indicate Alberta Pool has a mandate to represent members on policy issues and it has the responsibility to fulfill that mandate with commitment and ability.





The survey also indicated Alberta Pool needs to change members' perception that the cooperative is not aggressive in seeking new business or responsive to the needs of individual producers. To address these and other member concerns the delegates launched a strategic renewal process which will review Alberta Pool's goals and objectives and ensure the cooperative's ability to respond to change.

The renewal process began by examining Alberta Pool's strengths and weaknesses and the major opportunities and threats it faces. The Delegates then met and adopted a mission statement that embodies the future direction of the cooperative. The next step was to develop specific objectives the organization will pursue. They include:

- Renew the emphasis on customer service.
- Increase Alberta Pool's share of the grain handling business.
- Enhance cooperative and member earnings.
- Increase Alberta Pool's international marketing activities.
- Develop a mechanism to encourage and reward innovation.
- Increase member access, responsibility and participation in decisions affecting them.
- Develop a climate to encourage members, elected representatives and staff to work together.
- Strengthen Alberta Pool's local public presence as a good corporate citizen.

- Abandon the philosophy that we maintain our direction because "that's the way we have always done it."

Delegates will now be asked to approve the strategies that will achieve these objectives. By entering on a course of strategic renewal, the Delegate body has taken up the challenge to not only create a vision for Alberta Pool, but also to establish the strategies that will make the vision a reality.

D. E. Livingstone

D. E. Livingstone
President

R. C. Schmitt
T. A. Graham
A. F. Wagner
A. L. Aasen
H. N. Anderson
P. J. Durnin
J. F. Pearson
A. L. D. Pidruchney

CHIEF EXECUTIVE OFFICER'S REPORT

The management of Alberta Wheat Pool divided its time during the 1986/87 crop year between reducing the cooperative's liability to faltering subsidiaries, handling a near record volume of grain under strict cost control measures, and planning how to spend scarce investment dollars for the greatest benefit to Alberta Pool.



J. W. Madill,
Chief Executive
Officer

The most pressing task was to stop what had become a chronic drain of funds from Alberta Pool to Alberta Food Products (AFP), Alberta Pool's wholly owned canola crushing subsidiary, and Western Cooperative Fertilizers Ltd. (WCFL), a fertilizer manufacturing company one-quarter owned by the Pool. During the past few years it had become painfully apparent that canola crushing and fertilizer manufacturing were industries Alberta Pool could no longer afford to participate in. Both industries are plagued with overcapacity, declining margins and inconsistent demand. It was clear at the beginning of the 1986/87 crop year that Alberta Pool had to cut its losses in its two major subsidiaries.

Management realized the only event that could ease the oilseed crushing overcapacity problem in Alberta was the closure of one or more of the older, less efficient plants. When it became apparent this wasn't going to occur, Alberta Pool put AFP on the market. It wasn't long before Canada Packers Ltd. expressed an interest in the Fort Saskatchewan crushing plant and after a series of negotiations the

plant was sold at very favorable terms for Alberta Pool. The deal was a natural for both parties. AFP had been hampered by a lack of refining and processing capabilities. All it could produce was oil and meal and most of the margin attached to vegetable oil production is gained in the production of table-ready products like margarine and salad oil. Canada Packers had the refining and processing capacity but had to buy its oil. Through the deal Canada Packers was able to vertically integrate, Alberta Pool was able to liquidate a money losing venture, and Alberta Pool members were still able to sell canola to a crushing plant they had helped to develop. Everyone was a winner.

The task of dealing with WCFL was even more difficult but the results have been just as favorable to Alberta Pool. Anybody with even a nodding acquaintance with the fertilizer business knows it has been a money losing sector of the agri-business industry. WCFL has been no exception and has lost money in three of the past five years. It was in the process of accumulating substantial losses during 1986/87 and something had to be done immediately. In July, 1987, it was decided by the partners of WCFL to stop manufacturing fertilizer at the company's Calgary plant and sign a fertilizer purchase arrangement with Esso Chemicals. There were several advantages to the move for WCFL and its shareholders. First, the Calgary plant was losing money on every tonne manufactured so the production losses stopped with the plant shutdown. Fixed costs attributed to an idle plant will still have to be dealt with but they are less than the increasing production losses which were accumulating. Second, the Esso supply deal gave WCFL's partners a guaranteed supply of high quality fertilizer at a price that would ensure at least a modest return to WCFL. The bottom line is WCFL will now be in a position to begin retiring its debt load and Alberta Pool members will still have access to competitively priced fertilizer through Alberta Pool's farm supply network.

The WCFL restructuring will help the Alberta Pool net earnings picture in the years ahead but it caused a significant writedown of WCFL and Alberta Pool's assets in 1986/87. When a major manufacturing plant like the Calgary facility is shut down its asset value declines the moment the door is closed. This asset

devaluation has to be accounted for immediately. To do this Alberta Pool reduced the value of its share of WCFL and incurred other WCFL-related charges which together totalled \$13.6 million this year. Because some of the asset decline took place in previous crop years, Alberta Pool was able to deduct \$8.4 million of the WCFL-related charges from previous years' net earnings. It's important to realize that even though the asset decline was taken from the net earnings it had no effect on the cash holdings of Alberta Pool. The overall assets of the Pool shrunk - it's not worth as much as it was at the beginning of the crop year - but the liquid assets, the actual cash in hand, is at a record high level. Alberta Pool's working capital totals \$80 million, the highest in the cooperative's history, and the organization is in good shape to make needed capital investments in the future. In fact our debt to equity ratio improved this year so Alberta Pool remains financially strong and well placed to serve member needs in the years ahead.

The third major challenge to Alberta Pool management was to move a near-record volume of grain with a pared-down, efficient grain handling system. Alberta Pool handled 6.7 million tonnes in 1986/87, just short of the cooperative's record of 6.8 million tonnes. We accomplished this with about 300 less staff and 30 less elevators than when the record was set. The 651 country staff were called upon to handle an average of 10,100 tonnes each in 1986/87, a full 13 per cent increase over the previous per employee handling record. They responded to the challenge and handled the extra workload with responsible dedication. The management of Alberta Pool can't say enough about our staff's innovative capability and tremendous work ethic. To a large extent, the image of Alberta Pool is made or destroyed at the elevator driveway so management is looking at new ways of providing training, support and encouragement for our country employees.

The 27 per cent increase in grain volume generated an \$11 million increase in revenue over last year and added \$6.1 million to this year's net earning. The Grain Operations' income was offset partially by a \$4 million loss in the Farm Supplies Department which can be attributed to lower prices and sales. Overall, Country Operations earned \$2.2 million.

The large grain volume also kept Alberta Pool's Terminal Division's earning at a high level. The Alberta Wheat Pool Terminal handled a record 3.7 million tonnes and earned \$14.2 million. The Pacific Elevators Terminal handled 2.3 million tonnes and Alberta Pool's share of the terminal's earning was \$3.3 million.

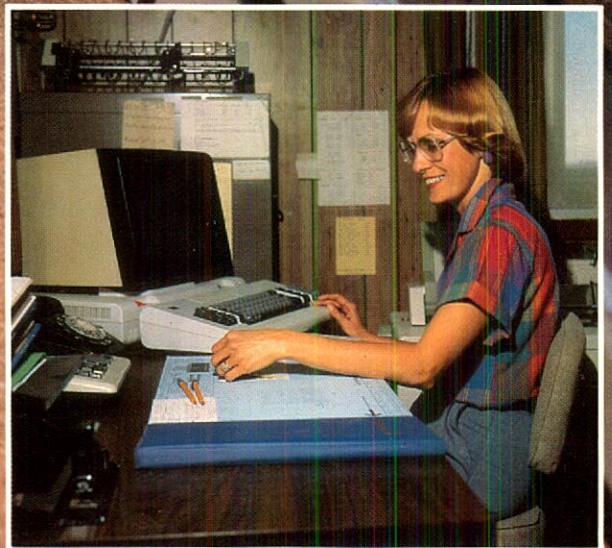
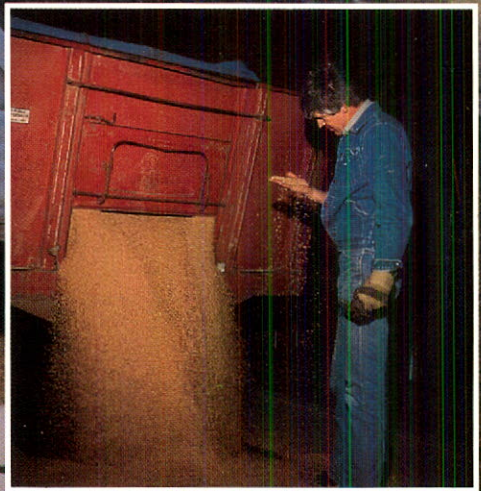
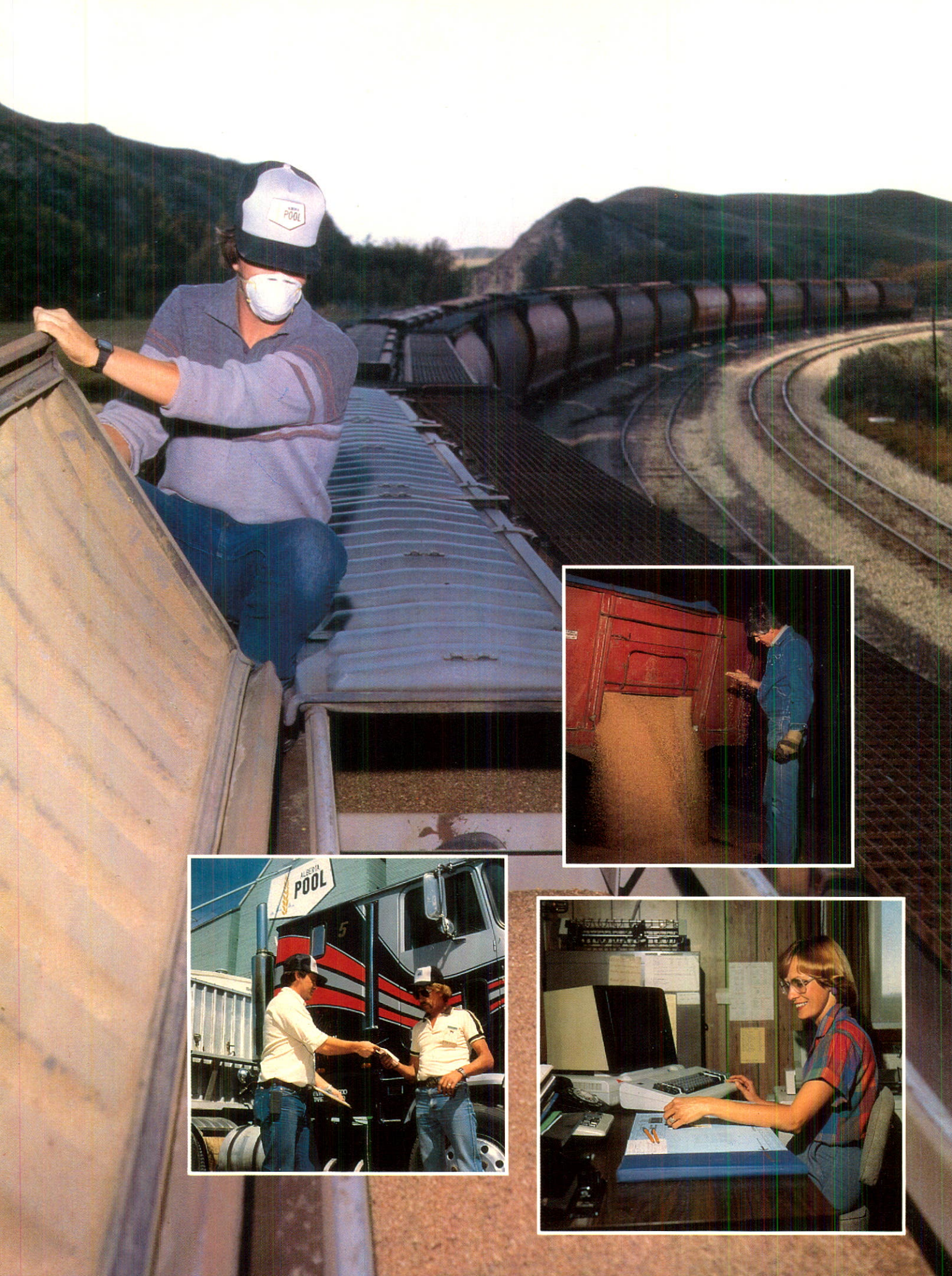
The earnings from grain-related activities, while encouraging, indicate Alberta Pool's growing inability to produce needed revenue during high grain handling volume years. The grain handling tariffs have not kept pace with expenses. This has been done to help members cope with rising costs and was a necessary assistance to our owners. It's time, however, for our members to become aware that continued tariff freezes will make it progressively more difficult for their cooperative's management to meet their needs in the future.

In closing, Alberta Pool went through some very difficult reorganization in 1986/87. Because of these changes Alberta Pool is financially strong and ready to take on the still significant challenges of facilities revitalization, improved marketing, and increased cost control. To accomplish this Alberta Pool is currently in the process of a major management reorganization that is being planned by Delegates, the Board of Directors and senior management.

Many of the major management decisions made this year were not pleasant because in some cases they spelled the end to efforts taken by Alberta Pool members to diversify and improve the service offered by their cooperative. They were essential, however, for the continued success of Alberta Pool and even in hindsight I'm convinced they were right and necessary actions. Our farmer members have been dealing with the same types of painful reorganization on their farms and together we are weathering the storm. Once the grain industry recession ends we should both be better equipped to take advantage of the market opportunities that will arise for the benefit of us all.



J. W. Madill
Chief Executive Officer



OPERATIONS

COUNTRY OPERATIONS

After scrambling for grain for two years, the men and women of Alberta Pool were faced with the challenge of handling a near record amount of grain in 1986/87. Ample moisture and heat allowed Alberta farmers to produce a record 18 million tonne crop in 1986 compared with the drought reduced effort of 12 million tonnes the year before.

Alberta Pool's country staff members were also faced with a grain grader's nightmare as a wet fall created a full compliment of grades and condition of grain. The difficult buying decisions were taken in stride because, at last, we had some grain to move.

The record large harvest set the stage for a major grain handling increase for Alberta Pool. Country elevator receipts soared to 6.66 million tonnes, an increase of 1.5 million tonnes or 27 per cent over the cooperative's performance in the 1985/86 crop year. The receipt total was the fourth highest in the long history of Alberta Pool. The record of 6.8 million tonnes was set in 1983/84.

"Country elevator receipts soared to 6.66 million tonnes."

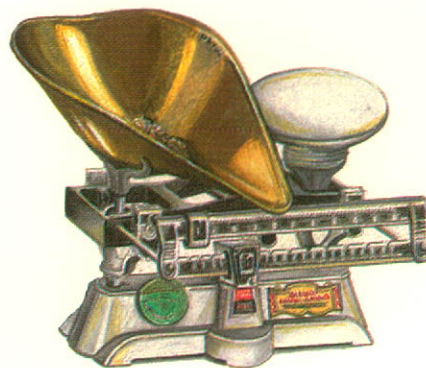
Grain moved out in even greater volume. Heavy Canadian Wheat Board export commitments and its increased barley contracting program allowed Alberta Pool grain shipments to top 6.7 million tonnes. This was two million tonnes higher than the 1985/86 performance.

The tremendous increase in grain handling wasn't accomplished without some problems. The large calls for Canadian Wheat Board barley under contract congested many Alberta Pool elevators throughout the province, especially in the Peace River area. After our elevators were plugged, farmers had no choice but to haul to our competitors and this hurt Alberta Pool's share of the grain handling market. The Board's decision not to call forward quotas that were small enough for the grain handling system to accommodate smoothly caused Alberta Pool's share of the provincial grain handling market to fall from 64.3 per cent to 64.1 per cent during the 1986/87 crop year.

Pool country staff rose to the challenges, however, and handled more grain per employee than had ever been accomplished before. The 651 country employees handled an average of 10,100 tonnes per person in 1986/87 compared to 8,400 tonnes the year before. Nearly 40 per cent of Alberta Pool's 289 country stations were called upon to ship more than 25,000 tonnes, a level that in year's past had been attained by only a few high-volume stations. Magrath, Alberta Pool's top station, handled an impressive 70,000 tonnes. The turnover ratio on Alberta Pool's entire grain elevator network was 3.8/1. At our top five plants the turnover ratio (the amount of grain shipped compared to the plant's storage capacity) was as high as 9/1. These are important standards for Alberta Pool because the more times we can fill and empty an elevator the cheaper it is for our farmer members to operate.

To ensure this turnover ratio remains high it was necessary to close older low-volume elevators at Enilda, Ensign, McLennan and Tees. This reduced Alberta Pool's storage capacity by 69,000 tonnes to 1.58 million tonnes.

The combined efforts of the Country Operations Division departments produced revenues of \$84.7 million and an earning of \$2.2 million. This is an increase in earnings of \$5.3 million over last year's performance.

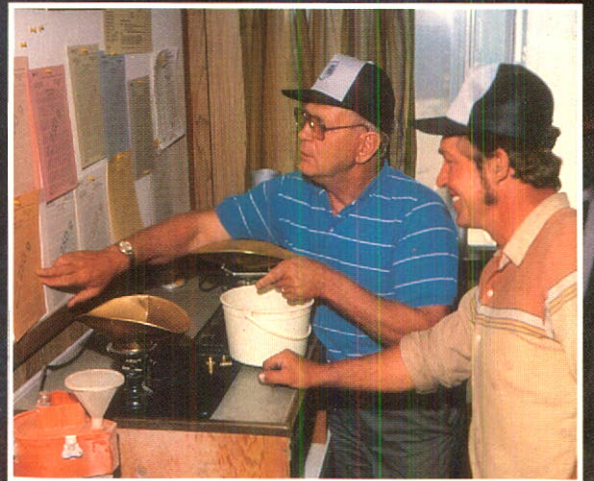
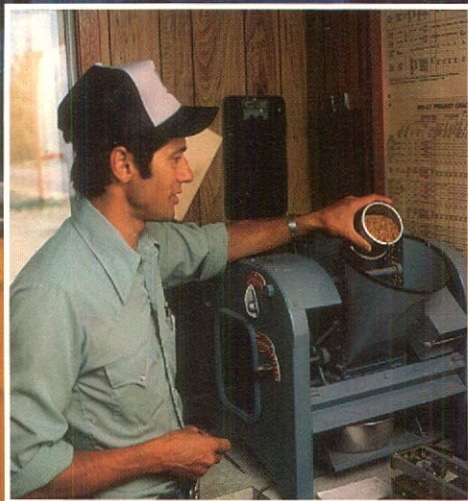
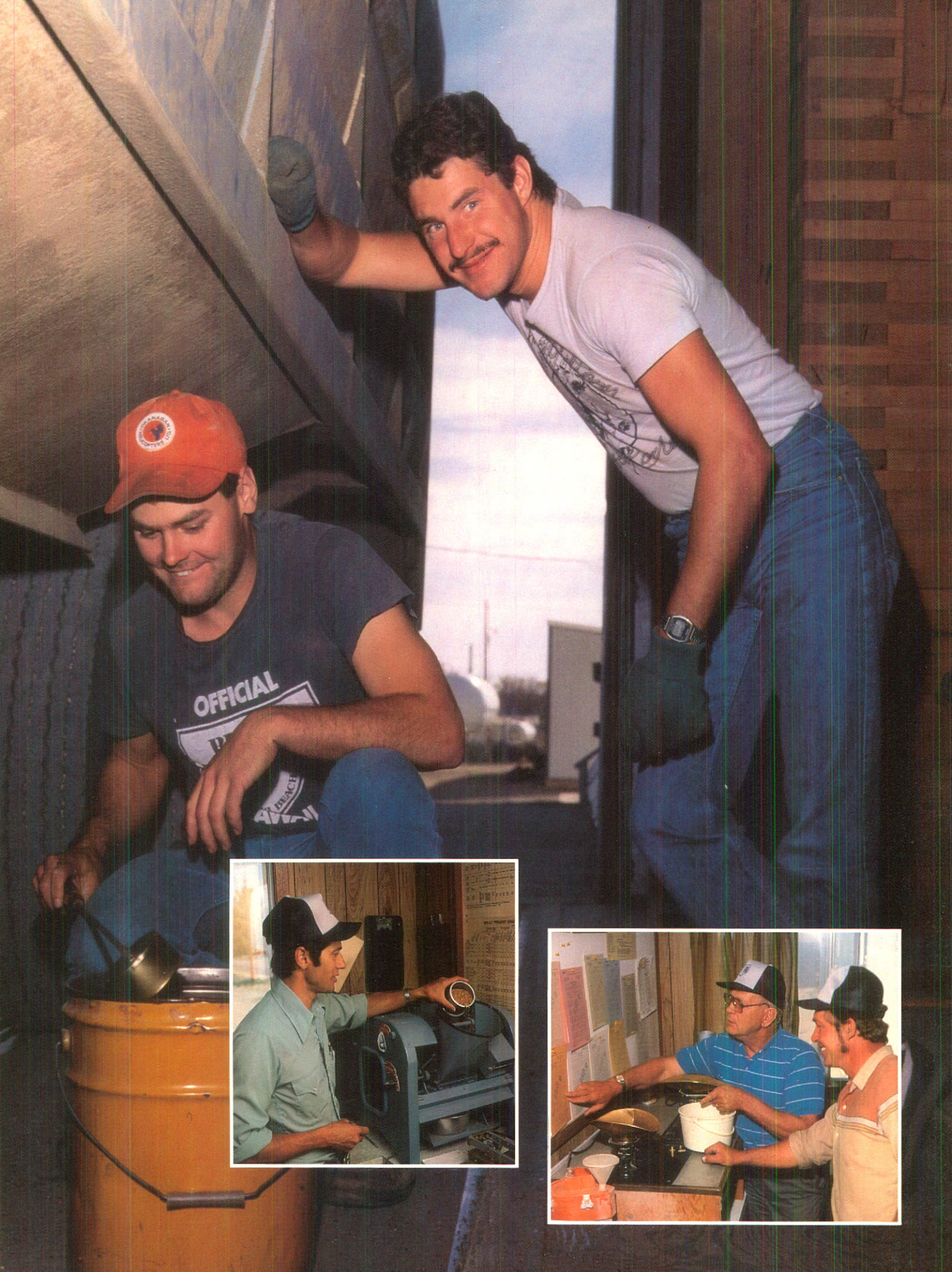


(Background) Tim Brown, assistant manager at the Rosebud elevator, closing hatch on loaded hopper car.

(Lower left) Mike White, the elevator assistant at Vulcan 4 elevator, hands a bill of lading to a trucker shipping wheat to Maple Leaf Mills Ltd.

(Lower right) Leona Miller, the office assistant at Rockyford, enters data into the office computer.

(Upper right) Peter Christensen, the manager at Dunmore, inspects a load of grain.



OPERATIONS

GRAIN SALES

The large 1986 crop presented the traders in Grain Sales with a tremendous marketing opportunity. They responded by increasing sales in every major grain sold by the department. Canola and non-board feed grain receipts topped the one million tonne mark, an increase of 269,000 tonnes over the previous year. Domestic milling wheat sales increased by 80,000 tonnes to a total of 204,000 tonnes and malt barley sales increased to 191,000 tonnes compared with 112,000 tonnes the year before. The increase in malt barley

"The increase in malt barley sales was primarily attributed to a successful export program."

sales was primarily attributed to a successful export program executed by the partnership of XCAN Grain Ltd. and Alberta Pool.

The strengthening relationship between XCAN (the Pools' grain exporting company) and Alberta Pool also paid dividends in the area of specialty crops and pony and select oats sales. In 1986/87 Alberta Pool contracted 5,000 tonnes of peas and 1,000 tonnes of lentils. Beginning in December, 1986, the Grain Sales Department also initiated an aggressive marketing program for high quality oats. A total of 15,000 tonnes of oats were sold from December to July compared to sales of 1,000 tonnes in the previous year. Most of the market expansion was in the U.S.

FARM SUPPLIES

The continuing downturn in the farm economy was a fact that no one in the Farm Supplies Department could ignore in the 1986/87 crop year. Farmers, faced with the lowest grain prices (in real terms) since the Depression, cutback on fertilizer and herbicide application. This, coupled with a decline in product prices, caused Alberta Pool's farm supplies sales to drop 14 per cent during the year to \$125 million.

The tough market caused Alberta Pool to drop its fertilizer prices by 15 per cent for nitrogen and nine per cent for phosphate fertilizers. These price declines brought fertilizer

prices to a six year low but they still weren't attractive enough to persuade farmers to keep their fertilizer purchases at last year's level. The reduced prices and the accompanying decline in sales produced significant losses in the fertilizer account.

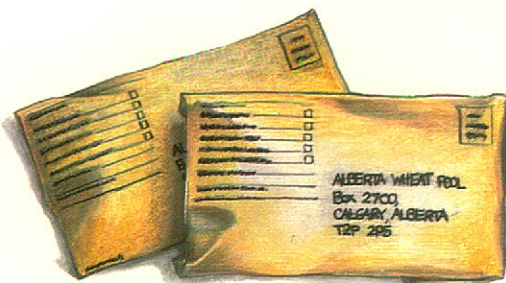
The market conditions were made worse by a soggy fall in 1986 which prevented many farmers from applying their fall fertilizer requirements. Only six per cent of total fertilizer sales were made prior to Nov. 30th, a substantial drop from the high of 21 per cent posted in 1981/82.

Bulk fertilizer sales increased in popularity with Pool customers and 91 per cent of the Pool's fertilizer sales were in the bulk form.

The Seed Sales Department filled the strong demand for forage seed on the export market and set a new seed sales record of \$25.3 million. This is a 23 per cent growth over last year's sales pace. The active demand for creeping red fescue seed was primarily responsible for the strong sales performance. Total seed purchases from members totalled \$10 million.

The Alberta Pool Seed Sales Department created excitement in the Canadian seed industry by launching its Ultrabred seed line in 1986/87. Ultrabred is the trade name for a private variety program launched by the three Prairie Pools. The first three varieties to be included in the program are Oslo wheat, Winchester barley and Conway wheat which will be introduced in 1987, 1988, and 1989 respectively.

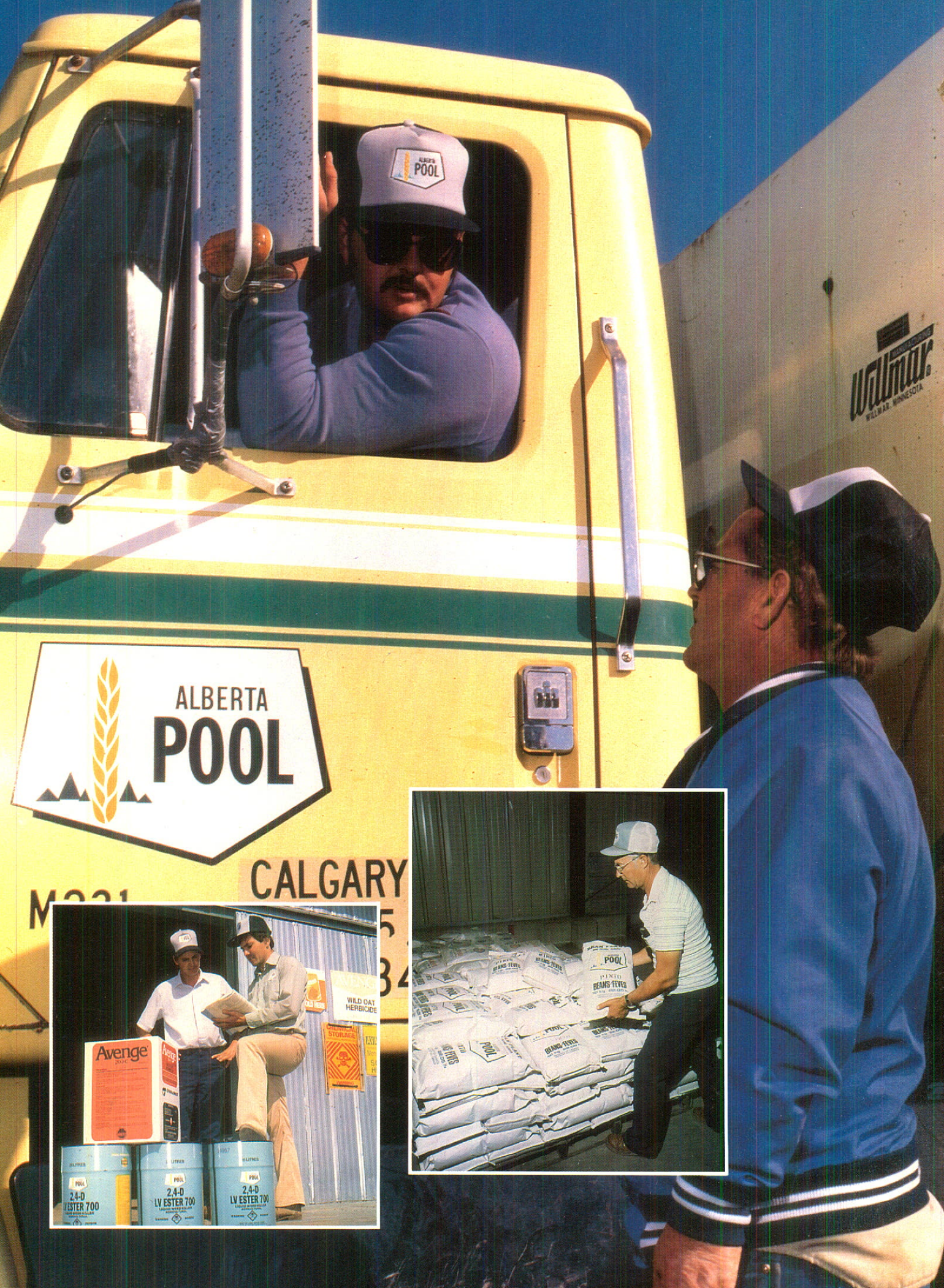
The Alberta Pool crop research group is hopeful two six-row malt barley varieties which were given provisional licensing will hold up to stringent quality testing. Both varieties possess superior agronomic characteristics



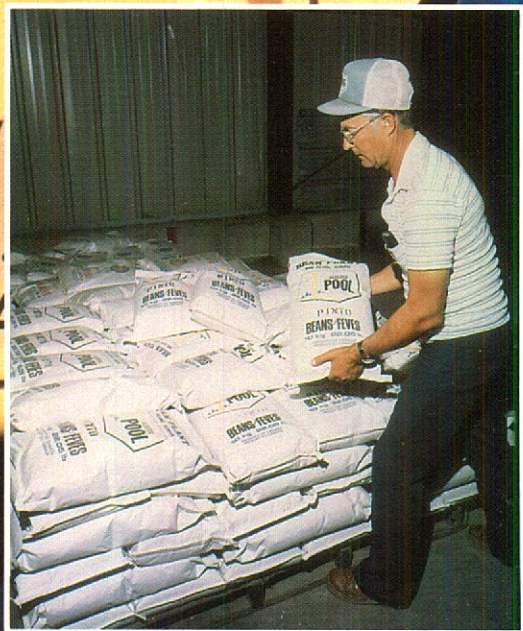
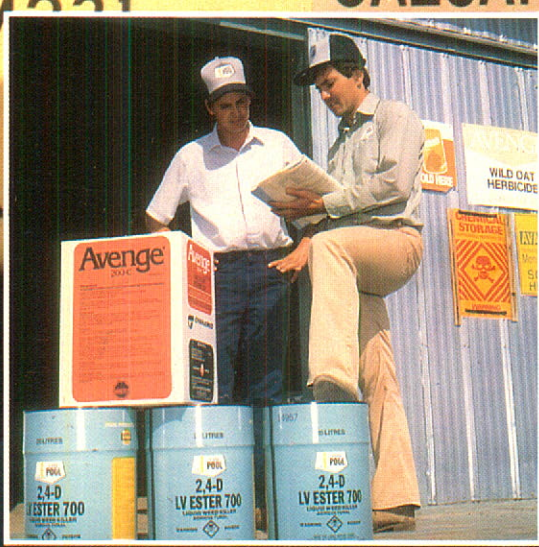
(Background) Max Reichel, a Trochu farmer samples a load of his grain hauled to Alberta Pool by Greg Primrose.

(Lower left) Doug Kingsmith, the manager at Cayley, performs a dockage test.

(Lower right) John Wagemakers, the manager at Rockyford, does a moisture test for Ron Kathol.



CALGARY



OPERATIONS

when compared to the standard Bonanza. In 1987, 39 lines of wheat, barley and canola were in the three year registration trials. It is anticipated only a few will pass the rigors of testing necessary to become a commercial variety.

Edible bean sales from Alberta Pool's Bow Island Bean Plant were up two per cent and prices were down five per cent during the year. A major \$1.7 million expansion of the bean plant was undertaken this year so the Pool could contract an additional 8,000 acres of bean production from its members. A major sales effort was made to secure a 7,000 tonne order from Cuba. A letter of intent from the Cubans was obtained but the Export Development Corporation, a federal government agency, declined to finance the sale, even though it had financed Cuban bean purchases in the past. At year-end the sale's prospect was unresolved.

ENGINEERING CONSTRUCTION AND MAINTENANCE

The lower earnings of the previous two years caused Alberta Pool to keep a pretty tight hold on capital expenses. This required the co-operative to reduce its capital projects expenditure to \$5 million, down from \$6.4 million the previous year.

During the 1986/87 crop year a Buffalo B2000 precast concrete elevator was completed at Boyle. Major elevator upgrades were completed at six locations, one steel storage elevator annex was erected, and five new steel replacement legs were installed.

A major \$1.7 million addition to the Bow Island Bean Plant was constructed. The construction department also moved a portable steel elevator from Penhold to the Camrose Farm Supply Centre to accommodate the growing pony oats business.

In addition to the capital construction work, Alberta Pool spent \$5 million on repairs and maintenance. The high grain handling volume put a double bind on the repair crews because the additional grain put a lot of extra wear and tear on the elevators yet it was difficult to perform repairs while the plants were operating at peak capacity.

TERMINAL OPERATIONS

A record grain shipment through West Coast ports produced a very busy year for Alberta Pool's terminal holdings. During 1986/87 a new grain export record for Vancouver and Prince Rupert was set as 16 million tonnes were shipped through the two ports. This shattered the previous record of 12.5 million tonnes established in 1983/84. The West Coast operated at peak capacity for most of the year and set eight consecutive monthly grain load out records from December, 1986, to July, 1987. The Alberta Pool Terminal and the Pacific Elevators Terminal set the pace during the intense export drive by handling 49.3 per cent of Vancouver's grain traffic.

In addition to the challenge of high volumes, the terminal staff had to contend with a wide assortment of grades and conditions of grain. The numerous grades that had to be binned separately caused the terminals to operate in a plugged or near-plugged condition for most of the crop year. This was an environment that placed severe restraints on the day-to-day operations of the facilities.

"The Alberta Pool Terminal and the Pacific Elevators Terminal set the pace."

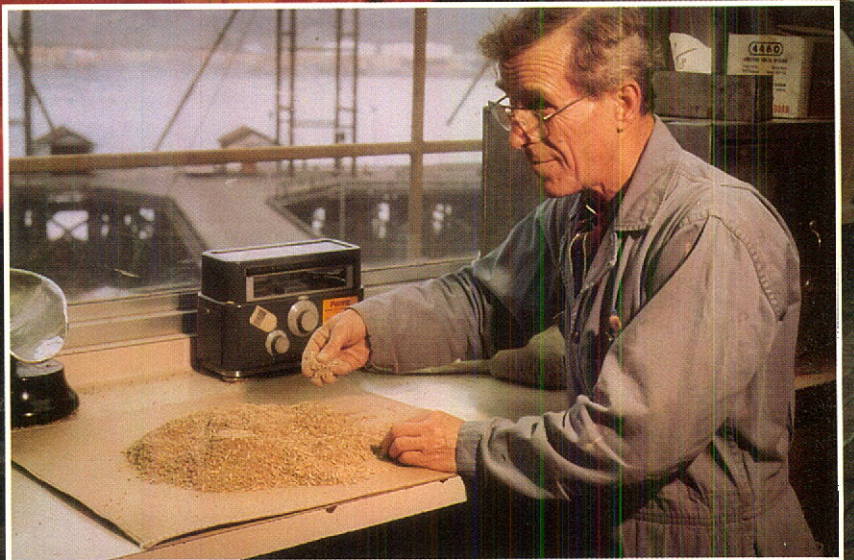
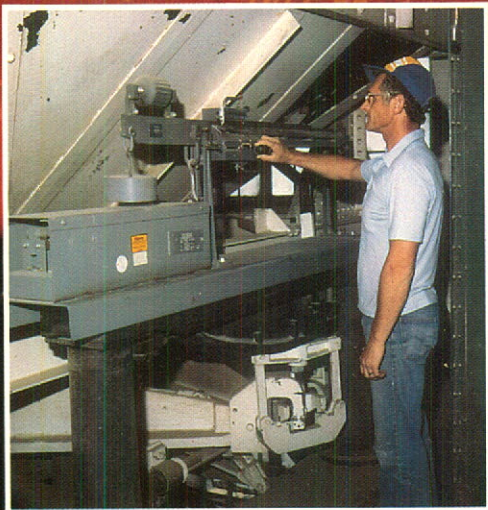
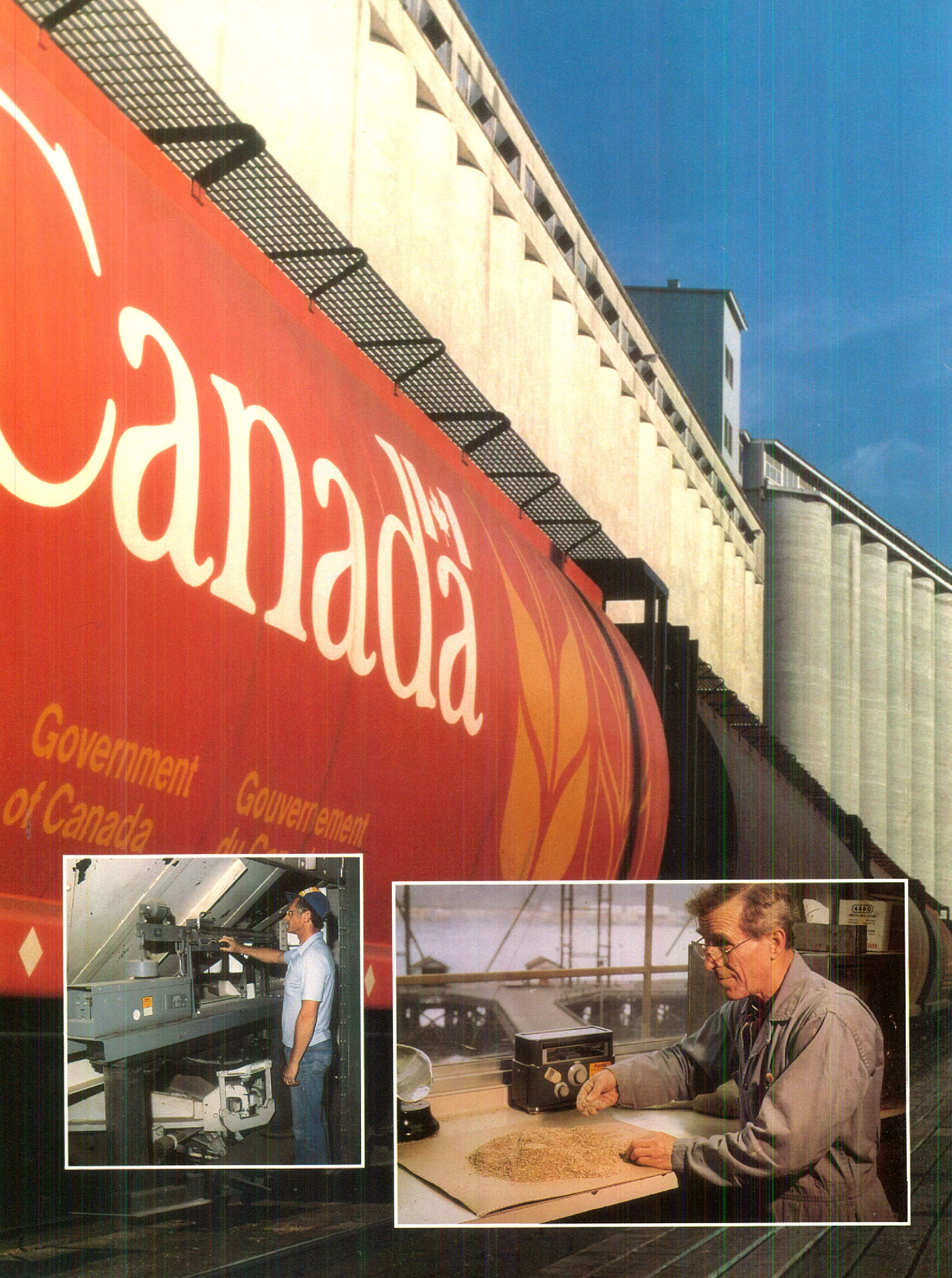
The Alberta Wheat Pool Terminal, wholly owned by the cooperative, established a new handling record with the receipt of 3.72 million tonnes, a remarkable 500,000 tonne increase over last year's volume. The AWP Terminal's performance accounted for 30 per cent of the port's grain traffic. Earnings from the terminal totalled \$14.2 million.



(Background) Agro manager Wayne Jaffray, seated in a floater truck, chats with assistant agro manager Glen Schuler of Brooks.

(Lower left) Geoff Ludkin, assistant manager at Rockyford, fills an agro order for David Henke.

(Lower right) Former Bow Island Bean Plant employee Gordon Creighton stacks bean sacks.



OPERATIONS

The Pacific Elevators Terminal handled 2.29 million tonnes, an increase of 100,000 tonnes over last year. During the year the terminal, which is 60 per cent owned by Alberta Pool, handled 800,000 tonnes of canola, a terminal record, and a 280,000 tonne increase over the previous year. Alberta Pool's share of Pacific Elevators Terminal earnings in 1986/87 was \$3.3 million, an increase of \$400,000 over last year.

Increased grain handling caused an increase of \$182,000 in expenses at the Alberta Wheat Pool Terminal. An enlarged workforce at Pacific Elevators Terminal increased overall expenses by \$900,000. The wage bill at both terminals increased because the large volumes of grain shipped required seven-day-a-week operations from February to August.

"The large volumes of grain shipped required seven-day-a-week operations."

The seven-day-a-week schedule allowed the terminals to perform extensive weekend rail car unloading programs which shortened car turnaround time. The weekend unloading - a cooperative effort with the three railways servicing Vancouver - increased West Coast unloads to 206,000 cars from the previous 171,386 car record in 1983/84.

Closer communication was necessary between the various sectors of the grain handling industry as resources became stretched by the high volume shipping. During the course of these negotiations, new railway facilities and smoother car delivery programs were discussed.

The discussions also prompted the shipment of 10 solid trains to Vancouver. All terminals participated in their unload which proceeded at a rate of 100 cars per eight hour shift. After three years of use, the concept of increasing the use of solid trains was supported in principle by the railways and the Grain Transportation Agency and the future use of solid trains is now being discussed with the Canadian Wheat Board. Alberta Pool is pleased with the progress made in the adoption of the solid train concept because it has been a leading advocate of its use.

During 1986/87 the Terminal Division began planning for the revitalization of the two

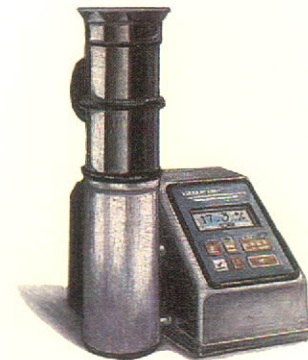
terminals. Alberta Pool realizes the share of Prairie grain handled by West Coast ports will increase in the years ahead and work will have to be performed on its terminals so the co-operative can take advantage of the added business.

There were two brief work stoppages caused by longshore lockouts in October and November but they caused minimal slow-downs in grain movement. The Vancouver terminal operators and the Grain Workers Union signed a three year agreement effective to December, 1989, which should obtain labor security at Alberta Pool terminals for at least the next two years. This was the first agreement reached without third party intervention since the 1950s. AWP Terminal Operations has taken a lead among terminal operators in fulfilling its requirements under equity employment legislation by hiring qualified women and minority workers.

FINANCE AND SUBSIDIARIES

The financial highlights of Alberta Pool in 1986/87 include increased grain handling earnings from the country elevator and terminal networks coupled with substantial asset write-downs incurred by the Pool's fertilizer subsidiary.

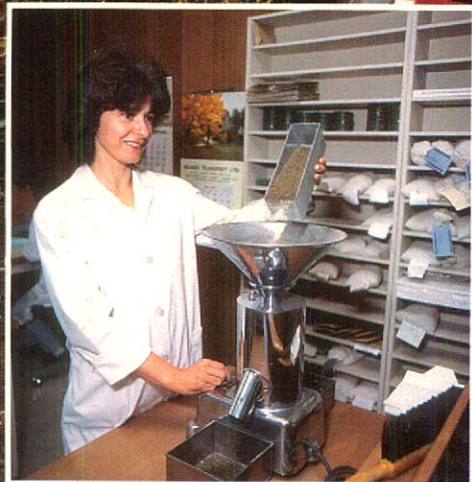
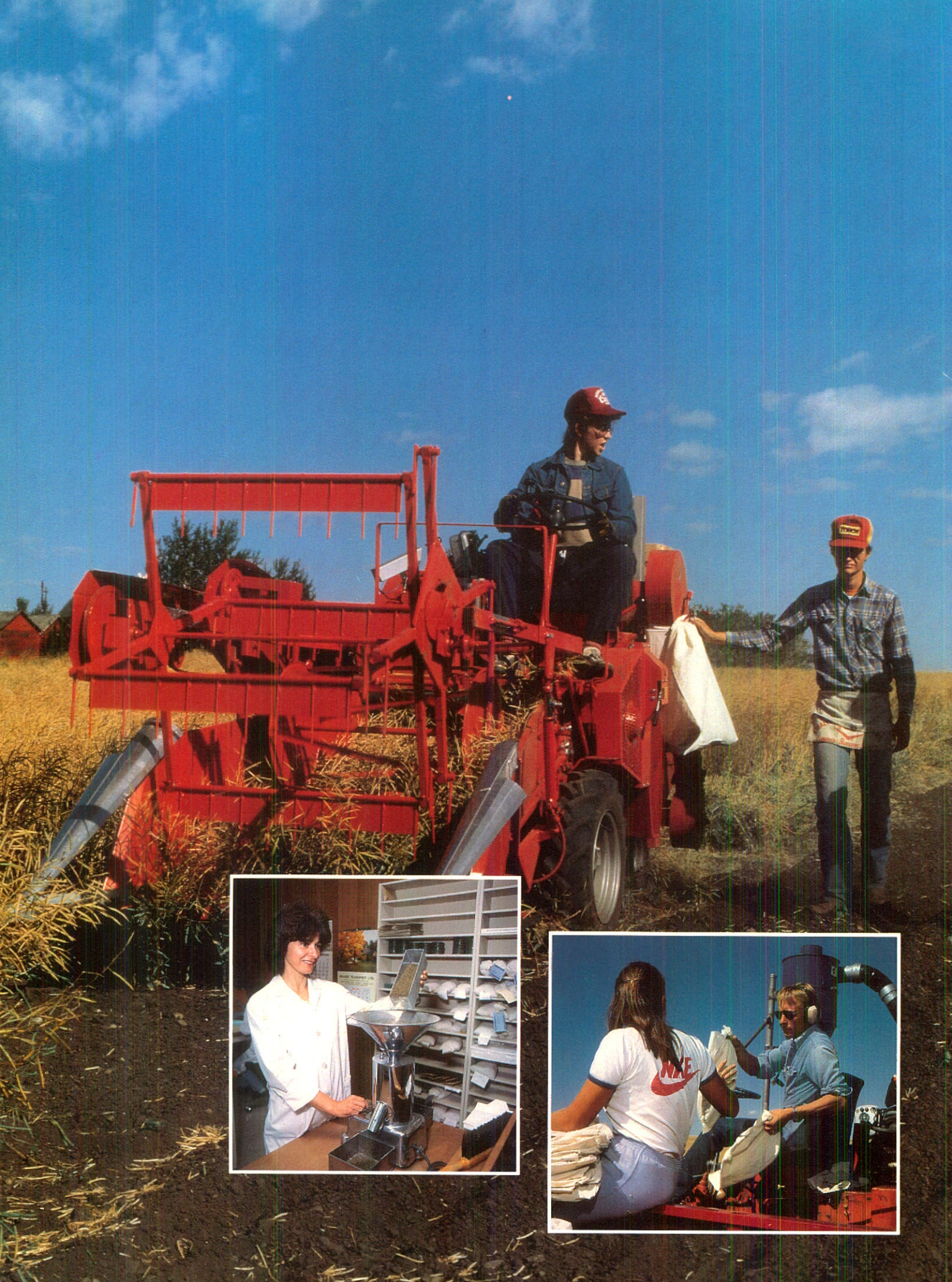
Total revenues after allowing for costs of sales were \$154.3 million, an increase of \$8.4 million. This is a 5.8 per cent rise over last year. Expenses rose with the higher level of business and were up 3.4 per cent to \$134.4 million.



(Background) A train of hopper cars wait for unloading beside the Alberta Wheat Pool Terminal.

(Lower right) Recently retired Alberta Wheat Pool Terminal grader John Chisholm casts an experienced eye over a grain sample.

(Lower left) A Canadian Grain Commission scale operator weighs grain at the Pacific Elevators Ltd.



OPERATIONS

Net operating earnings from Alberta Pool's Country Operations and Terminal Operations were \$20 million, a 26 per cent increase over last year's level of \$15.9 million. The increase is directly attributed to higher grain handling revenue which was partially offset by a loss in farm supply returns.

The earnings from grain-related activities were almost entirely committed to a modest loss incurred during the sale of Alberta Food Products and the asset writedown and re-financing which was required when Western Cooperative Fertilizers Ltd. ceased to produce fertilizer at its Calgary plant.

(in \$,000's)	1987	1986
Country Grain Operations	6,121	(5,112)
Farm Supplies	(3,982)	1,851
Terminal Operations	14,165	18,496
	16,304	15,235
Alberta Food Products	(2,736)	(6,327)
Pacific Elevators Ltd.	3,310	2,952
Western Pool Terminals Ltd.	51	227
Prince Rupert Grain Ltd.	1,909	384
	2,534	(2,764)
Other charges and share of results of affiliated companies	(15,152)	(6,976)
Net earnings	3,686	5,495

Virtually all of the reduction in this year's net earning can be attributed to asset devaluation and, as such, doesn't impair the cash flow or reduce the working capital of the cooperative. Asset writedowns were required to recognize the reduced value of the WCFL Calgary plant. This reduced value was subtracted from the 1986/87 earnings. Some of the devaluation which had occurred before the 1986/87 crop year was absorbed by a reduction of earnings from prior years.

In total, \$13.6 million in charges attributed to the WCFL restructuring have been deducted from this year's earnings and \$8.4 million have been subtracted from previous years' earnings.

On a brighter note, working capital funds generated from operations during the year were \$25.6 million. This is a modest increase over last year. Nearly \$10 million was spent

on financing measures taken to repay longterm debt and to repurchase member reserves.

The sale of Alberta Food Products business and inventory resulted in an increase to Alberta Pool's working capital of nearly \$17 million. The AFP sale revenue plus the income from operations increased working capital to a record level of over \$80 million. The high level of working capital is a valid indicator of Alberta Pool's strong financial condition.

"Income from operations increased working capital to a record level of over \$80 million."

Total assets held by the cooperative decreased during the year to \$382.6 million. This is a \$91 million decrease and represents primarily the lower values held in grain inventories and accounts receivable. Bank borrowings to finance these assets were kept to much reduced levels.

The capital invested in Alberta Pool by members and longterm creditors has remained at relatively constant levels for the past three years. During the year over \$7 million was expended to reduce longterm debt to outside creditors. Member loans also decreased slightly but the drop was not sufficient to require replacement under our loan support program. As a result Alberta Pool's debt to equity ratio improved slightly.

Earnings before extraordinary expenses represent a 12.2 per cent return on invested capital. This favorably compares with the 10.9



(Background) Casual staff combine experimental plots.

(Lower left) Bonnie Anderson, seed analyst, blends a seed sample at the Camrose Seed Laboratory.

(Lower right) Agronomist Tim Ferguson and a casual staff member bag samples harvested from a test plot.

OPERATIONS

per cent return last year but also indicates that the recent freeze on grain handling tariffs has somewhat impaired Alberta Pool's ability to benefit from a high grain volume year like 1986/87.

"The cooperative faces large capital expenditures in the years ahead."

Alberta Pool's net earnings as a return on equity was a nominal 2.9 per cent. This compares to a 4.5 per cent rate of return on equity in 1986. Even though Alberta Pool's financial condition remains sound and its working capital is at a record level, the cooperative faces large capital expenditures in the years ahead. It also still faces demands for more support from affiliated organizations and increasing requirements for cash to revolve member reserves. These factors continue to emphasize the need for rigid examination of margin levels and cost efficiencies.

ASSOCIATED COMPANIES

WESTERN COOPERATIVE FERTILIZERS LTD.

Western Cooperative Fertilizers Ltd. was caught in the severe fertilizer market downturn in 1986/87. Fertilizer prices fell \$25-30 per tonne and WCFL sales volume fell eight per cent. The result was a significant financial loss for the year ending June 30, 1987.

In May, 1987, the Medicine Hat ammonia plant was shut down to reduce operating losses. In July, 1987, the WCFL Board announced the shutdown of its Calgary plant and the signing of a supply contract with Esso Chemicals. WCFL will now purchase fertilizer at wholesale prices from Esso and market it to the owner cooperatives. This will improve earnings on both phosphate and nitrogen products sold by the Pools.

The state of WCFL's U.S. interests has improved. Beker, the bankrupt equal partner in the company's phosphate mine, has been replaced by a firm named Nu West which has

pledged to inject capital into the mine operation, extract phosphate ore, and pay WCFL's holding company a royalty.

PRINCE RUPERT GRAIN LTD.

The Prince Rupert terminal achieved a record grain handling of just over four million tonnes, well above its estimated handling capacity of 3.5 million tonnes. The terminal accounted for 26.3 per cent of total West Coast shipments, handling only wheat, barley and some by-products.

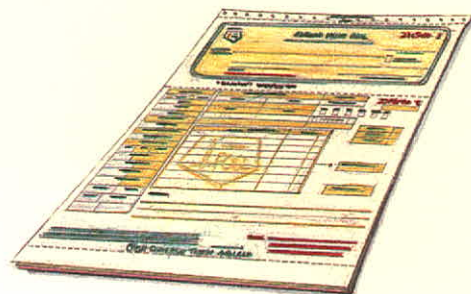
The terminal's excellent grain handling capacity was demonstrated by several grain handling records set this year, including 330 cars unloaded in a single day on a three-shift operation. Earnings for the year were \$21.3 million, but after payment of the shippers' return, funds remaining were inadequate to pay the full interest charge on the Alberta government financed loans.

Labor negotiations over staffing of the terminal's control area remain unresolved. Unionized terminal workers are without a contract and are being paid the compensation package agreed to by Vancouver terminal workers in a recent contract.

CO-ENERCO

Co-enerco, a joint oil exploration and production venture by the federal government and a group of cooperatives (of which Alberta Pool is a member), completed its fourth complete year of operation on Dec. 31, 1986.

Co-enerco reacted to the precipitous fall in oil prices by reducing interest, overhead and operation expenses. The company has survived the 1986 oil bust by focusing on high



percentage exploration programs, relying on unused credit lines and maintaining a low level of debt.

Co-enerco was required to write down the value of its oil and gas properties in 1986, resulting in a loss of \$9.9 million compared to an earning of \$2.4 million in 1985.

In June, 1987, Co-enerco announced plans to double its capital spending program because of the improved industry outlook for the year. The expanded program will be financed by increased cash flow and from proceeds of a flow-through share issue.

In July, Co-enerco purchased Bedford Petroleum Ltd., a private oil company, for \$8.9 million. The purchase doubled Co-enerco's proven crude oil reserves and will increase its cash flow.

XCAN GRAIN LTD.

XCAN Grain Ltd. earned nearly \$2 million because of increased sales volumes which countered tighter margins and increased shipping costs during the 1986/87 fiscal year.

XCAN is hoping for increased sales in the new year but prices and sales will be determined by its competitors' use of export subsidies. During the past year, the subsidy battle between the U.S. and the European Community continued to depress prices and counter stabilizing market factors.

XCAN dominated the West Coast canola market with sales of over 40 per cent of all canola marketed to Japan and Korea. Mexico also became a major canola customer for XCAN. It also increased its sales activity in specialty markets such as field peas and malting barley during the year. Grain screening pellets were a tough sale because of low feed grain prices and higher ocean freight rates.

PACIFIC ELEVATORS LTD. AND WESTERN POOL TERMINALS LTD.

The Pacific Elevators Terminal located at Vancouver is owned by Western Pool Terminals Ltd. and operated by Pacific Elevators Ltd. Both companies are 60 per cent owned by the Alberta Wheat Pool, 30 per cent by

Saskatchewan Wheat Pool and 10 per cent by Manitoba Pool Elevators.

The Pacific Elevator Terminal handled 20 per cent of Vancouver's grain traffic in 1986/87 and earned \$3.3 million for Alberta Pool.

ADMINISTRATION AND HUMAN RESOURCES

Alberta Pool's Human Resources Division worked hard at keeping staff levels constant despite the near record grain handling this year. On July 31, 1987, Alberta Pool's staff included 1,620 employees. This compares with last year's staff count of 1,621. Holding the line on employee numbers while handling a substantially increased volume of grain is a testament to Alberta Pool's cost control and our employees' strong work ethic.

Human Resources helped our permanent staff to cope with the peak workload periods by hiring part-time, casual and summer staff. The temporary staff helped to clear away backed up seasonal work without increasing the Pool's permanent staff payroll.

Labor relations at the West Coast terminals continued to be handled without incident. Grievance levels remained low and all issues were dealt with directly between management and union staff.

Alberta Pool Terminal Operations' unionized grain workers have agreed to a contract that continues until Dec. 31, 1989. The agreement was settled without the need of a third party mediator.

Negotiations over staffing and classification of key positions at the Prince Rupert Terminal continue without resolution. The Prince Rupert Terminal workers are without a contract and are paid according to the collective agreement signed by the Vancouver grain workers.



OPERATIONS

Alberta Pool's lost time accident rate continued to fall despite the increased pace of work at both the Country Operations and Terminal Operations divisions. Lost time accidents in 1986/87 totalled 115 compared with 129 in 1985/86. This decline can be attributed to ongoing safety training and a heightened awareness of safety management by Alberta Pool staff.

Alberta Pool responded to employee enquiries about the cooperative's compensation benefit package by holding a series of regional meetings with staff to fully explain the benefits they earn. The information was well received. To ensure the flow of information continues to country staff, the position of Manager, Country Employee Relations has been filled.

A greater emphasis on training occurred during the crop year. Training programs concentrated on grain handling, marketing and selling skills, and management training was provided to country staff.

"A greater emphasis on training occurred during the crop year."

During the past year Alberta Pool received about \$100,000 from the Alberta government to assist with training programs.

The Human Resources Division is currently reviewing the impact of and Alberta Pool's response to the Employment Equity Act, a review of the Canada Labor Code, and impending legislation that will deal with the pay equity issue. These labor legislation changes will likely create profound changes to Alberta Pool's human resource management approach.

The Administrative Services area continued to provide a cost saving and efficient printing, graphics and mailing service and provided new and better ways of handling Alberta Pool's numerous files of electronic and paper documents.

CORPORATE AFFAIRS

Effective communication with our membership is essential to the well being of Alberta Pool and is the top priority of the Corporate Affairs Division.

Corporate Affairs has attempted to be a conduit through which membership concerns are reported directly and promptly to the Board of Directors. Several new measures have been taken to enhance Corporate Affairs' role in establishing a two-way communications with members. Chemical company representatives have been invited to speak at Delegate report meetings to increase member attendance. Current information about the cooperative and the grain trade has been offered to members through meetings and new publications like the Committee Member's Handbook and The Advisor.

Corporate Affairs has established a benchmark for the communications activity of Alberta Pool and illustrated member attitudes toward the Pool with the completion of a comprehensive membership survey which was commissioned during 1986/87. Results indicated the Pool is generally well regarded but they also pointed out some weaknesses that need to be addressed. The perceived need for more empathy with producers and the members' desire for a greater feeling of involvement in the policy setting of the Pool stand out as two important concerns that need to be rectified. Plans and programs are being developed to focus on these and other issues raised by the survey.

The weekly publication The Budget is the Pool's most important communication link with members - according to the survey - and attempts are being made to increase its circulation and adapt its format to better serve the information needs of Alberta Pool members.

Good media relations provide an effective way to communicate with our membership and a concentrated effort has been made by



Corporate Affairs to ensure media enquiries are promptly and effectively dealt with. Media seminars have been sponsored in several areas of the province to introduce new reporters to the grain trade. Alberta Pool is fortunate to have developed contacts with a core of journalists who are well acquainted with and sympathetic to farm concerns.

Youth programs continue to receive strong support from Alberta Pool. Sponsorship and support of 4-H, youth camps, scholarships, and the Young Couples Program are important ways to establish contact with young people and potential members.

The Corporate Affairs advertising program has depicted Alberta Pool as a progressive, empathetic cooperative. Through advertising and media contact, Alberta Pool has also created excitement in the grain trade by promoting our pony oats sales, the deferred delivery contract program, solid train use, the Ultrabred seed line, and other innovations attempted by Alberta Pool.

“Considerable effort was made to improve government relations.”

Considerable effort was made during the year to improve government relations. A joint seminar with senior officials from Alberta Agriculture was held to improve working relations between the Alberta Pool and Alberta Agriculture field staffs. Joint programs have since been sponsored by the two groups. Regular contact is being maintained with federal and provincial representatives, both at the elected and bureaucratic levels, to improve our working relationship with government.

CORPORATE DEVELOPMENT

A cooperative the size of Alberta Pool requires speedy and accurate accounts processing so Corporate Development began re-vamping its accounts receivable system in 1986/87 to handle the anticipated significant increases in transactions at no additional cost.

The division is also in the process of reviewing the Corporate Information Services

department to ensure the Pool is getting value for its investment in information handling systems.

The Economic and Analytical Services Department maintains a data base of over 700 agricultural, economic and statistical indicators for use by several divisions within Alberta Pool.

Monthly grain market and economic publications add to the information flow from Corporate Development.

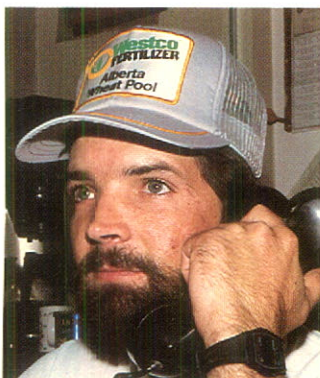
Two potential grain-related industrial processes were investigated by Corporate Development for future commercial applications. It studied a technology that produces a high protein feed supplement for ruminant animals from barley and other starch sources. The division also researched the development of a new dust filtering system for application in grain terminals. Initial results are encouraging but neither investigation was complete at year-end.

The development and maintenance of a guide for the future development of Alberta Pool's grain handling system is a high priority in the division. The process developed can identify stations that are in need of an immediate management decision, alternatives to the current network, and the operational and financial impact of various scenarios within the grain handling network. This work is useful for the Board and management when grain elevator and transportation planning is discussed.

Transportation issues continue to be a high priority with Corporate Development. Alberta Pool's transportation department makes itself aware of the myriad of transportation issues and develops reasoned responses for Alberta Pool when the issues affect the operations of the cooperative and/or its members.



SERVING OUR MEMBERS - THE NUMBER ONE PRIORITY



PAT LARSON, AGRO MANAGER, MAGRATH

"When you're selling agro you have to anticipate your customers' needs. We also have to keep our inventory under control so we're always walking a fine line when it comes to keeping product on hand. You learn by experience and by talking to farmers how much to order.

"We have to meet the competition and we do that by pricing right, keeping our equipment well maintained, and having the right product on hand at the right time. We also use the expertise available from the chemical companies to be as good a salesman as we can be. We've got to use all the tools at our disposal to satisfy the customer.

"There are times when our customers are dissatisfied and that's when I have to take the time to listen. They need somebody to speak their minds to and I have to be patient. I have to sort the legitimate grievances from the normal frustration of being a farmer and act quickly to correct them. We have to really listen to their needs."

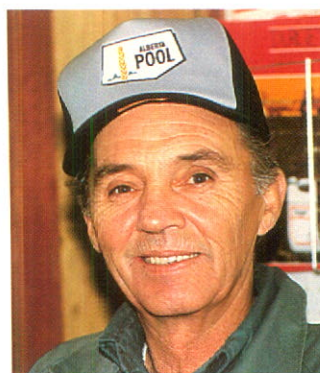


DEB EVANEZ, OFFICE ASSISTANT, OLDS

"I have to have a good relationship with the farmers. I'm quite often a go-between between the farmer and the manager and if I don't make them feel comfortable they may not come back. It's a job that involves a lot of listening. Farmers let me know what they think of our prices. I'm kind of a sounding board that they use to bounce off their problems and concerns.

"I also do a lot of administrative work for farmers. I get them in touch with agricultural experts who can help them, I explain to them the "B" Certificates and how they work, I help them with their quota books and keep track of their Western Grain Stabilization Program contributions. They appreciate that.

"I'll also fill in when the manager is real busy by doing the odd moisture test and weighing some grain. We all pitch in at whatever has to get done."



KEITH MURRAY, GRAIN MANAGER, RYLEY

"The secret to buying grain is to be consistent and treat them fair. Most of our customers are pretty loyal but they'll haul to the next town if they figure you're not grading fairly. They compare grading between the competition and ourselves and even the grades I've given to various customers so you have to be consistent. Sometimes things get interesting when we deal with our customers but we like them to leave knowing they got the best deal possible.

"Farmers are a lot more interested now in our various grain marketing alternatives. More of them are hedging, quite a few farmers want to ship producer cars, and there's more guys all the time wanting to sign deferred delivery contracts. We have to know each of these marketing options so we can explain them to the farmers."



MARK MOSKALYK, MANAGER, EAGLESHAM

"Our customers have to be satisfied when they leave the elevator. If it's farm supplies they need and we don't have it we'll drive to the next town to get it. We have to do what ever it takes to keep them satisfied. If you treat them right it will reflect on your business.

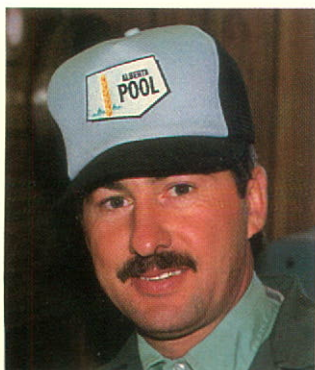
"It never hurts to make the time to talk to these guys. When you're busy that's sometimes hard to do but you have to make the effort if you want to keep their business. We put in the hours that need to be put in here. When farmers get busy, they're working from sunup to sundown and we have to be there. If you do them a favor after hours they remember and keep coming back."



CHUCK TITTERINGTON, MANAGER, HIGH RIVER

"We put a lot of grain through an old elevator so we have to do a lot of jobs before the farmers start showing up. I've got good cooperation here with the farmers. When I'm loading cars I can phone guys on my list and they'll haul their grain in so I can load it directly into the cars. That makes good use of the elevator and helps out the farmers too. There's so much to do that I allow a set amount of time for a job and then try to get it done quicker. It's got so I can't just stand around while the truck is being unloaded. I'm always checking the cleaner or checking a car while the truck is unloading. The only bad thing about being so busy is it's tough to take the time to talk with the customer. That's important and something I wish I had more time to do.

"When it comes to agro, you have to have the product here when they need it and you have to offer a consistent price to everybody. You have to keep ahead of your customer needs. When you're buying grain it's important to grade fairly and consistently. It all boils down to treating the customer the way you'd like to be treated yourself."



LOUIS GIRARD, MANAGER, HINES CREEK

"When you're buying grain you have to treat the farmer fair. You have to give him everything you can because the competition is sharp here and our customers demand fair grading. We don't keep a lot of farm supply inventory here but we keep enough on hand to satisfy our customer needs. If we don't have it we make sure we can locate it for him. We have to make sure the farm supply is available and competitively priced. We try to get as much grain through our elevator as we can. We try to phone farmers whenever there's a quota opened up or we get some elevator space. They appreciate that. We also spend the time talking to customers so we know what they expect from us."

AUDITORS' REPORT

The Members

Alberta Wheat Pool

We have examined the consolidated statement of financial position of Alberta Wheat Pool as at July 31, 1987 and the consolidated statements of operations, earnings retained from prior years and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the consolidated financial position of Alberta Wheat Pool as at July 31, 1987 and the results of its consolidated operations and changes in its consolidated financial position for the year then ended in accordance with generally accepted accounting principles, applied, after giving retroactive effect to the change in the method of accounting as explained in Note 12 to the financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
October 19, 1987

Touche Ross & Co.
Chartered Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ALBERTA WHEAT POOL and subsidiary companies
AS AT JULY 31, 1987

	1987	1986
Current Assets		
Cash	\$ 6,837,744	\$ 10,490,876
Inventories (Note 2)	167,640,703	206,413,271
Accounts and accrued items receivable	65,808,206	83,281,573
Prepaid expenses	7,776,558	9,188,185
	248,063,211	309,373,905
Current Liabilities		
Cheques and cash tickets outstanding	40,103,903	51,935,358
Bank loans	63,840,000	128,825,122
Call and short-term loans	5,135,500	24,672,400
Accounts payable and accrued charges	40,602,187	31,915,686
Staff savings	12,577,311	12,271,198
Current maturity of long-term debt	5,717,990	6,012,753
	167,976,891	255,632,517
Working capital	80,086,320	53,741,388
Property and equipment (Note 3)	105,644,669	126,804,253
Investments and memberships (Note 4)	26,111,165	33,170,115
Other assets (Note 5)	2,821,286	5,122,342
Funds Invested	\$214,663,440	\$218,838,098
Financed By		
Term loans from members and co-operatives (Note 6)	\$ 51,380,998	\$ 52,272,087
Long-term debt (Note 7)	22,892,930	29,902,420
Obligation under loan guarantee (Note 11)	11,200,000	8,400,000
Members' equity		
Reserves (Note 8)		
Authorized: \$120,000,000		
Issued to members	103,739,975	103,585,351
Earnings retained from prior years	21,762,692	19,183,483
Net earnings for the year	3,686,845	5,494,757
	129,189,512	128,263,591
	\$214,663,440	\$218,838,098

Approved on behalf of the Board:



D. E. Livingstone, Director



R. C. Schmitt, Director

CONSOLIDATED STATEMENT OF OPERATIONS

ALBERTA WHEAT POOL and subsidiary companies
FOR THE YEAR ENDED JULY 31, 1987

	1987	1986
Revenue		
Sales and other operating revenue	\$1,012,516,547	\$ 985,133,305
Costs of sales	858,121,403	839,179,309
	154,395,144	145,953,996
Expenses		
Country facilities	52,841,379	49,598,027
Terminal operations	28,959,754	27,392,114
Administration	23,599,003	19,536,562
Interest	16,743,075	19,498,819
Depreciation and amortization	12,258,411	13,999,191
	134,401,622	130,024,713
Net earnings before the following	19,993,522	15,929,283
Loss from a discontinued business (Note 9)	(2,736,105)	(6,326,672)
Share of results of affiliated companies	(10,912)	86,981
Extraordinary revenue	—	1,500,000
Earnings before other charges	17,246,505	11,189,592
Other charges (Note 10)	(13,559,660)	(5,694,835)
Net earnings for the year	\$ 3,686,845	\$ 5,494,757

CONSOLIDATED STATEMENT OF EARNINGS RETAINED FROM PRIOR YEARS

ALBERTA WHEAT POOL and subsidiary companies
FOR THE YEAR ENDED JULY 31, 1987

	1987	1986
Net earnings for previous year (Note 12)	\$ 5,494,757	\$ 6,623,409
Less patronage refunds distributed		
In cash	164,818	1,634,460
In member reserves	2,750,730	6,571,830
	2,915,548	8,206,290
	2,579,209	(1,582,881)
Earnings retained at beginning of year as stated (Note 12)	19,183,483	20,766,364
Earnings retained at end of year	\$21,762,692	\$19,183,483

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

ALBERTA WHEAT POOL and subsidiary companies
FOR THE YEAR ENDED JULY 31, 1987

	1987	1986
Working capital provided by (used in)		
Operating activities		
Net earnings for the year	\$ 3,686,845	\$ 5,494,757
Add items not affecting funds		
Depreciation and amortization	13,146,483	15,674,834
Other charges	8,811,399	3,966,673
	25,644,727	25,136,264
Financing activities		
Decrease in long-term debt	(7,009,490)	(1,046,668)
Decrease in members' term loans	(891,089)	(64,043)
Deferred foreign exchange loss	1,029,325	(87,750)
Patronage refunds paid in cash	(164,818)	(1,634,460)
Members' reserves purchased	(2,596,106)	(6,546,807)
	(9,632,178)	(9,379,728)
Investing activities		
Decrease in investments and memberships	1,047,550	1,302,136
Purchase of fixed assets-net	(5,969,362)	(12,703,507)
Proceeds on disposal of property and equipment	14,429,015	2,936,437
Decrease in development and pre-operating costs	825,180	—
	10,332,383	(8,464,934)
Increase in working capital	26,344,932	7,291,602
Working capital, beginning of the year	53,741,388	46,449,786
Working capital, end of the year	\$80,086,320	\$53,741,388

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ALBERTA WHEAT POOL and subsidiary companies
JULY 31, 1987

1. ACCOUNTING POLICIES

Alberta Wheat Pool ("the Association") is incorporated by a special Act of the Alberta Legislature. In preparing its financial statements, the Association follows generally accepted accounting principles. The following is a summary of the significant accounting policies adopted by the Association:

a) Principles of consolidation

These consolidated financial statements include the accounts of Alberta Wheat Pool and its subsidiaries: Western Pool Terminals Ltd. 60% Pacific Elevators Limited 60%. All significant inter company transactions have been eliminated.

b) Investments and memberships

The Association uses the equity accounting method for recording the carrying value of its investments in certain affiliated corporations over which it has significant influence. Portfolio investments are stated at cost less write-downs for permanent decline in value when appropriate.

c) Property and equipment

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

d) Other assets

Goodwill and patent rights are being amortized on a straight-line basis over ten years.

e) Recognition of income

The basis of valuing grain held in country storage facilities results in a deferral of handling revenues until deliveries are made to terminal facilities. Revenues from grain overages registered in advance at the terminal elevators are deferred until a weighover occurs.

f) Foreign currency translation

Foreign currency long-term debt financing has been recorded at the rate of exchange in effect at July 31, 1987. Exchange gains and losses on this long-term debt are deferred and included in other assets. The deferred balance is amortized over the term of the debt.

g) Net earnings for the year

Net earnings for the year are distributed by way of patronage refunds according to the decisions of the delegates at the Association's annual meeting.

2. INVENTORIES

	1987	1986
Grain purchased for delivery to the Canadian Wheat Board, valued at established delivery prices, after deferral of unearned handling revenues	\$ 98,755,533	\$155,418,101
Grain valued on the basis of open sales contracts and future contract prices, after deferral of unearned margins	9,730,102	7,016,546
Other inventories, including seed and agro supplies, valued at the lower of cost or net realizable value	59,155,068	43,978,624
	\$167,640,703	\$206,413,271

3. PROPERTY AND EQUIPMENT

Property and equipment are classified by operating division as follows:

	1987	1986
Country facilities	\$169,020,960	\$163,658,883
Terminal operations	72,378,084	71,183,924
Processing plant	—	27,701,940
Administration	23,019,046	23,868,044
	264,418,090	286,412,791
Less		
Accumulated depreciation	149,533,204	150,759,373
Investment tax credits	9,240,217	8,849,165
	\$105,644,669	\$126,804,253

The construction or acquisition of additional property and equipment in the amount of \$20,500,000 (1987-\$9,300,000) has been authorized by the Directors of the Association.

4. INVESTMENTS AND MEMBERSHIPS

	1987	1986
Equity investments		
Western Co-operative Fertilizers Limited (Note 11)	\$ —	\$ 6,011,399
XCAN Grain Ltd.	2,866,102	2,722,592
Other	550,623	705,045
	3,416,725	9,439,036
Portfolio investments		
Ridley Grain Ltd.	13,785,923	14,815,215
Co-enerco	8,000,000	8,000,000
Other portfolio investments and memberships	908,517	915,864
	22,694,440	23,731,079
	\$26,111,165	\$33,170,115

5. OTHER ASSETS

	1987	1986
Goodwill	\$ 525,883	\$ 601,010
Patent rights	771,128	842,917
Deferred foreign exchange loss	1,584,275	2,613,600
Development and preoperating costs	—	1,064,815
	\$2,821,286	\$5,122,342

6. TERM LOANS

Substantially, all term loans from members and co-operatives are on a demand basis. However, experience has shown that such loans are outstanding for longer than one year and accordingly they are not included in current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. LONG-TERM DEBT

	1987	1986
Alberta Wheat Pool		
Income debenture	\$ 1,500,000	\$ 2,700,000
9¼% notes payable U.S. \$11,000,000 (\$13,500,000 - 1986)	14,598,100	18,634,050
Capital lease	183,608	497,322
Term loan	4,000,000	5,000,000
Agreement to purchase land	1,100,000	2,300,000
Western Pool Terminals Ltd.		
6½% mortgage	3,308,462	3,537,050
Advances from minority shareholders	3,920,750	3,246,750
	28,610,920	35,915,172
Less current maturity	5,717,990	6,012,752
	\$22,892,930	\$29,902,420

- a) The income debenture is secured by a first mortgage on land, a first floating charge on all the Association's undertakings, property and assets. The debenture carries interest at half of prime rate plus three quarters of a percent, and is repayable in quarterly installments of \$300,000, to 1988.
- b) The 9¼% notes payable are supported by a guarantee from the Bank of Montreal. The notes are repayable in annual installments to 1994.
- c) The capital lease expires in 1988 and carries interest at 14%.
- d) The term loan is repayable in equal quarterly installments over a five-year period. Interest is payable at ½% less than prime rate.
- e) The agreement to purchase land is secured by an irrevocable bank letter of guarantee. The agreement carries interest at 9½% and is payable monthly. Principal is repayable in monthly installments of \$100,000 to 1988.
- f) The 6½% mortgage is secured by the property and equipment of Western Pool Terminals Ltd. and is payable in annual installments of \$462,918, including interest.
- g) Interest on long-term debt was \$6,476,245 in 1987 (1986-\$7,890,718).
Repayments of long-term debt for the next five years ending July 31 are as follows:
1988 - \$5,717,990; 1989 - \$3,550,530; 1990 - \$3,267,747; 1991 - \$3,286,104; 1992 - \$2,305,678

8. RESERVES

	1987	1986
Balance at beginning of year	\$103,585,351	\$103,560,328
Deduct members' reserves purchased	2,602,611	6,546,807
	100,982,740	97,013,521
Add patronage refunds allocated as members' reserves	2,757,235	6,571,830
Balance at end of year	\$103,739,975	\$103,585,351

9. DISCONTINUED BUSINESS

During the year, the Association sold the crushing facilities formerly operated by Alberta Food Products. The loss recorded for the year of discontinuance is comprised of:

Loss on sale of assets	\$2,195,907
Operating loss to date of sale	540,198
	\$2,736,105

10. OTHER CHARGES

	1987	1986
Write-down of shares in, and advances to Western Co-operative Fertilizers Limited	\$6,011,399	\$1,166,673
Payment to Western Co-operative Fertilizers Limited for additional cost with respect to fertilizer products for 1987	3,254,316	—
Write down of Maalsa Investments Ltd. carrying charges	1,493,945	1,728,162
Provision under loan guarantee (Note 12)	2,800,000	2,800,000
	\$13,559,660	\$5,694,835

11. COMMITMENTS AND CONTINGENCIES

- a) Western Co-operative Fertilizers Limited (WCFL), in which the Association has a 25% interest, has, through a U.S. subsidiary acquired a 50% interest in a phosphate mining and processing operation known as the Conda Partnership. The balance outstanding at July 31, 1987 of the debt instruments for this ownership interest amounted to \$38,727,000 U.S. (\$51,394,000 Canadian) repayable in annual installments until 1996. The Association's share of the installments, including interest, for the next five years ending July 31 would be as follows:

	(U.S. Dollars)
1988	\$2,376,000
1989	\$3,550,000
1990	\$2,007,000
1991	\$2,007,000
1992	\$2,007,000

The Association is committed to directly or indirectly fund up to one third of the total debt obligations. This funding commitment has not been included in the Association's assets and liabilities as the form of the undertaking and the cost, if any, to the Association have not been determined.

Western Co-operative Fertilizers (U.S.) Inc.'s partner in Conda Partnership filed for protection under Chapter 11 of the United States Federal Bankruptcy Act on October 21, 1985. In July 1987, the United States Federal Bankruptcy Court approved a transfer of the partner's 50% interest in Conda Partnership to another partner. Conda Partnership has resumed phosphate mining and beneficiation operations for the benefit of the new partner.

- b) The Association is contingently liable for any deficiency in the security pledged against its \$16,000,000 share of an associated company's financing agreement due in 1988. The Association's share of estimated current market value of the security is \$2,000,000. The Association has provided \$11,200,000 for this contingent liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. PRIOR YEAR ADJUSTMENTS

During the year the Association changed the method of accounting for its share of an associated company's financing agreement. This change has been retroactively applied, resulting in a charge to operations of \$2,800,000 for each of the years ended July 31, 1984 to 1986, representing a yearly provision against the value of the security.

The effect on earnings retained from prior years as at July 31, 1986 has been a reduction from \$24,783,483 to \$19,183,483 representing the provision for the years ended July 31, 1984 and July 31, 1985.

13. RELATED PARTY TRANSACTIONS

The Association conducts its business activities as a co-operative and consequently, a significant portion of its transactions, including grain purchases, sale of farm supplies, and financing transactions, are with members of the Association.

Amounts due from related parties of \$411,242 and amounts due to related parties of \$13,149,420 are included in the Association's assets and liabilities at July 31, 1987.

14. COMPARATIVE BALANCES

Certain reclassification of account balances have been made to the 1986 comparative balances to conform to the classifications used in 1987.

DELEGATES 1987-88

District One

101 Gogolinski, Barney	Orion
102 Lindeman, Brian	Milk River
103 Zobell, John W.	Raymond
104 McGlynn, Dallis H.	Twin Butte
105 Hanzel, Ron A.	Lethbridge
106 Simanton, Vernon	Foremost
107 Koenen, John	Iron Springs
108 Rempel, Henry S.	Vauxhall

District Two

201 Brown, Gary G.	Stavely
202 Williams, S. Evan	Vulcan
203 McMorris, Gary	Milo
204 Sutherland, Wilson	High River
205 McWilliam, Bernie	Blackie
206 Moulton, Gordon	Hussar
207 Bird, Lionel M.	Carstairs
208 Kettenbach, Will	Rockyford

District Three

301 Fischer, Marvin A.	Hilda
302 Bamber, Robert D.	Esther
303 Skriver, Gordon	Tilley
304 Bothi, Steven C.	Bassano
305 Kettenbach, Alfred	Drumheller
306 Moe, Daniel L.	Morrin
307 DeGiano, Wayne R.	Craigmyle
308 Kloberdanz, John	Kirriemuir

District Four

401 Degenhardt, Keith	Hughenden
402 Redmond, Donald R.	Edgerton
403 Harbin, Clifford T.	Rivercourse
404 Kelly, John D.	Lloydminster
405 Thompson, William C.	Mannville
406 Ash, Robert W.	Viking
407 Oberg, Allen L.	Forestburg
408 Hepp, Melvin F.	Castor

District Five

501 Schmaltz, Clarence M.	Beiseker
502 Carney, Pat F.	Three Hills
503 Schaefer, Vernon F.	Innisfail
504 Silver, Neil D.	Huxley

District Five (cont'd)

505 Petersen, Leslie M.	Erskine
506 Northey, Robert E.	Red Deer
507 Hilman, Perry	Red Deer
508 Nelson, Glen R.	Bentley

District Six

601 Lawrence, John A.	Clandonald
602 Hess, Roland	Two Hills
603 Farion, Orest	Vegreville
604 Fedun, David	Andrew
605 Galloway, Kenneth D.	Fort Saskatchewan
606 Mulligan, Earl	Bon Accord
607 Vidiuk, Fred	St. Paul
608 Shalka, Kenneth R.	Fort Kent

District Seven

701 Lundy, Donald W.	Forestburg
702 Holmberg, James S.	Rosalind
703 Jacobsen, Norman	New Norway
704 Loov, C. W. (Bill)	Bluffton
705 Rude, Lars E.	Tofield
706 Appleby, Kenneth	Tofield
707 Rebus John A.	Stony Plain
708 Hagman, Earl	Mayerthorpe

District Eight

801 Carson, W. D.	Waskatenau
802 Ewaskow, Russel F.	Thorhild
803 Zachkewich, Emil	Boyle
804 Stanley, Kenneth	Westlock
805 Nanninga, Dennis	Barrhead
806 Crone, James B.	Falher
807 Galigan, Douglas	Falher
808 Gunning, John	Peace River

District Nine

901 Erickson, Rae G.	Tangent
902 Nikolaychuk, Mike	Woking
903 Homme, Dreng	Hythe
904 Watson, Allen B.	Dawson Creek
905 Vander Linden, Dale	Clayhurst
906 MacArthur, John D.	Fairview
907 Sydnese, Kenneth J.	Brownvale
908 Fedeyko, William S.	High Level



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