No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities offered hereby have not and will not be registered under the United States Securities Act of 1933, as amended (the ''1933 Act''), and accordingly will not be offered, sold or delivered, directly or indirectly, within the United States of America, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a U.S. person (as defined in Regulation S under the 1933 Act) except in limited circumstances. See ''Plan of Distribution''.

SHORT FORM PROSPECTUS

New Issue and Secondary Offering December 11, 2001

United Grain Growers Limited

$104,000,000

13,000,000 Limited Voting Common Shares

This short form prospectus qualifies the distribution of 13,000,000 Limited Voting Common Shares (the ''Offered Shares'') of United Grain Growers Limited, carrying on business as ''Agricore United'' (''Agricore United'' or the ''Company''). Agricore United is one of Canada's leading agri-businesses, formed by the merger of the businesses of United Grain Growers Limited and Agricore Cooperative Ltd. on November 1, 2001 (the ''Merger''). Of the Offered Shares, 6,709,359 Limited Voting Common Shares are being issued and sold by the Company and 6,290,641 Limited Voting Common Shares are being sold by Agricore Assisted Sales Corporation (the ''Selling Shareholder''). See ''Selling Shareholder''. The Company's principal shareholder, Archer Daniels Midland Company (''ADM''), one of the world's leading agri-businesses, has advised the Company that it will purchase 1,720,246 Offered Shares under this offering pursuant to the exercise of its pre-emptive rights. After giving effect to this offering and ADM's purchase, ADM will own approximately 19% of the outstanding Limited Voting Common Shares.

The Company's outstanding Limited Voting Common Shares are listed on the Toronto Stock Exchange (the ''TSE'') under the symbol ''UGG''. On December 11, 2001, the closing price of the Limited Voting Common Shares on the TSE was $8.60.

Investing in the Offered Shares involves risks. See ''Risk Factors''.

Price: $8.00 per Limited Voting Common Share

	Price to the Public	Underwriters' Fee(1)	Net Proceeds to the Company(1)(2)	Proceeds to the Selling Shareholder(3)
Per Limited Voting Common Share	$ 8.00	$ 0.40	$ 7.60	$ 8.00
Total(4)	$104,000,000	$4,511,902	$49,162,970	$50,325,128

(1) The Company will pay the Underwriters' fee in respect of all of the Offered Shares, except any Offered Shares purchased by ADM under this offering, in respect of which no Underwriters' fee will be payable.

(2) Before deducting expenses relating to this offering, estimated at $1.5 million which, together with the Underwriters' fee, will be paid from the general funds of the Company.

(3) The Selling Shareholder is not required to pay any portion of the expenses of this offering. Instead, each Agricore stakeholder participating in the assisted sales program established in connection with the Merger is required to pay $0.02 per share sold under the assisted sales program towards reimbursement of expenses incurred in connection with the assisted sales program and this offering. See ''Selling Shareholder''.

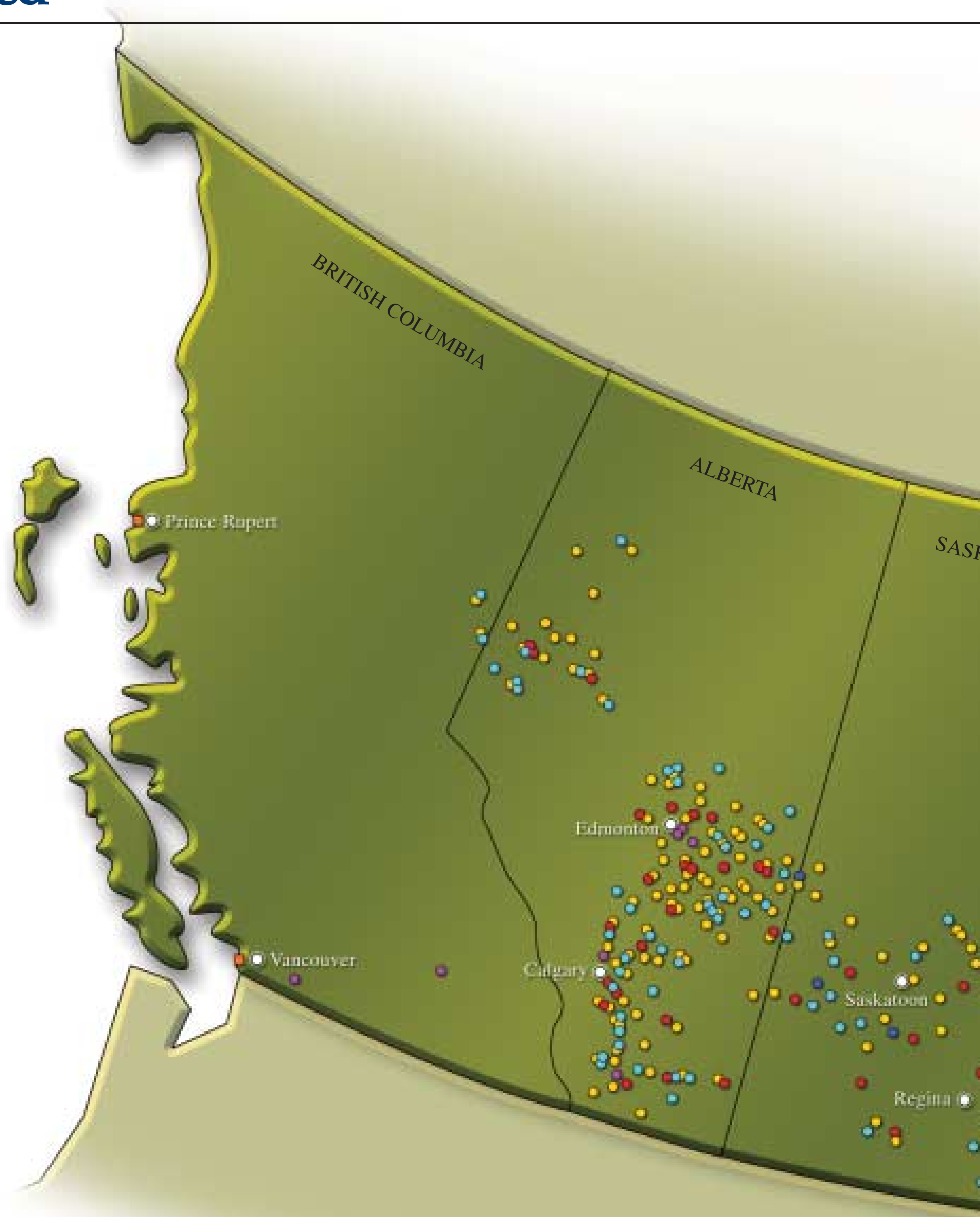
(4) The Company has granted to the Underwriters an option (the ''Over-Allotment Option''), exercisable for a period of 30 days after the closing date of this offering, to purchase up to an additional 1,006,403 Limited Voting Common Shares on the same terms set out above to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, the total Price to the Public, Underwriters' Fee and Net Proceeds to the Company will be $112,051,224, $4,914,463 and $56,811,633, respectively. See ''Plan of Distribution''. This prospectus qualifies the distribution of the Over-Allotment Option and the Limited Voting Common Shares issuable on the exercise thereof.

Scotia Capital Inc., National Bank Financial Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., HSBC Securities (Canada) Inc., Pollitt & Co. Inc. and Wellington West Capital Inc. (collectively, the ''Underwriters''), as principals, conditionally offer the Offered Shares, subject to prior sale, if, as and when issued and delivered by the Company or delivered by the Selling Shareholder and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under ''Plan of Distribution'' and subject to the approval of certain legal matters on behalf of the Company by Davies Ward Phillips & Vineberg LLP, Toronto, Ontario, and on behalf of the Underwriters by Fasken Martineau DuMoulin LLP, Toronto, Ontario.

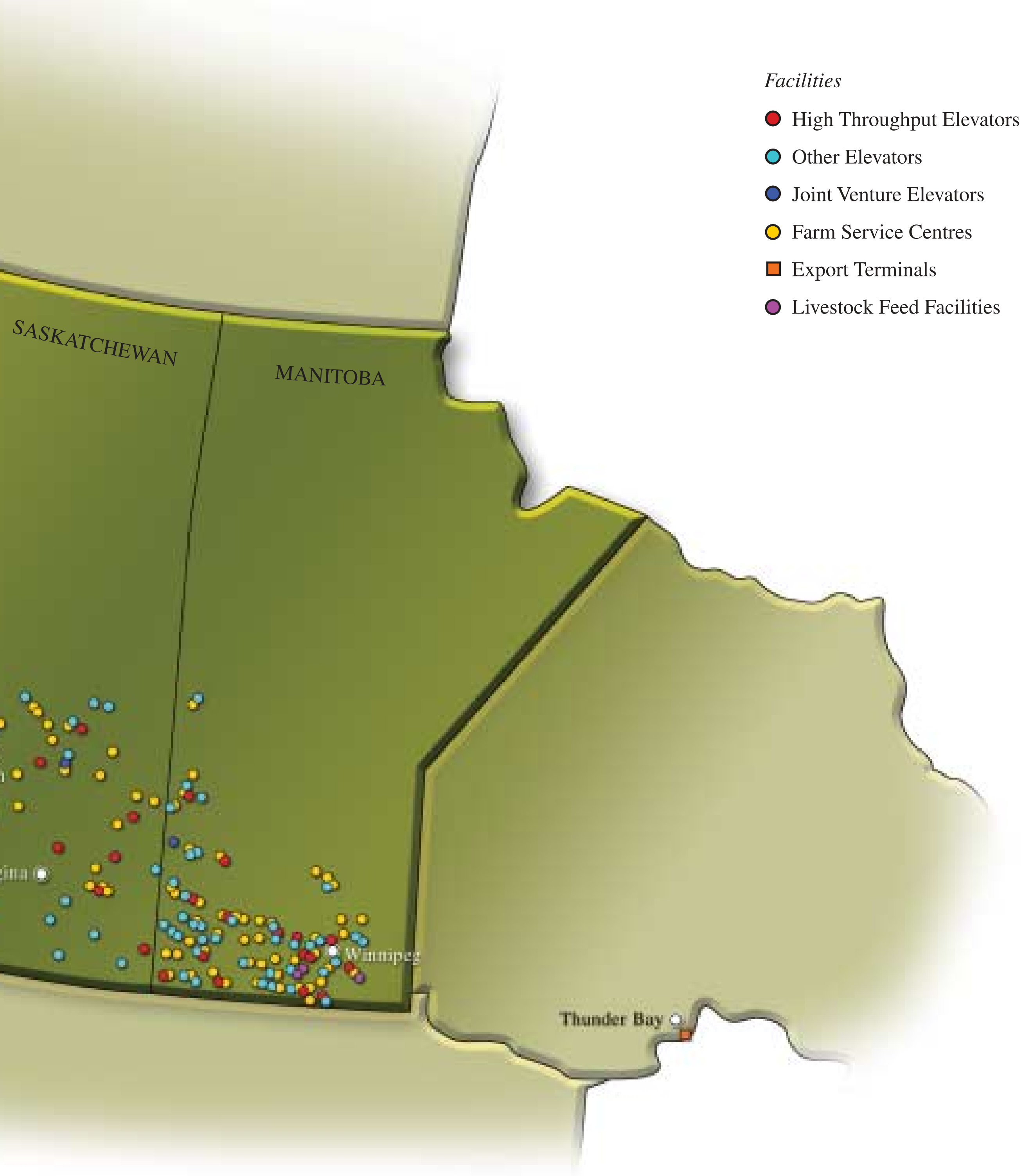
Affiliates of Scotia Capital Inc., National Bank Financial Inc. and CIBC World Markets Inc. are lenders to the Company. Consequently, the Company may be considered a connected issuer of these Underwriters within the meaning of applicable securities legislation. See ''Use of Proceeds'' and ''Plan of Distribution''.

After the initial offering, the offering price may be changed by the Underwriters as described under ''Plan of Distribution''.

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that certificates evidencing the Offered Shares will be available for delivery at the closing of this offering, which is expected to take place on or about December 17, 2001, but in any event not later than January 23, 2002.


BRITISH COLUMBIA
ALBERTA
SAS
Prince Rupert
Vancouver
Edmonton
Calgary
Saskatoon
Regina

Agricore United Locations



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Trademarks used in this prospectus are the property of their respective owners.

In this prospectus, ''Agricore United'' and the ''Company'' refer to United Grain Growers Limited, carrying on business as Agricore United, and its subsidiaries (including Agricore Ltd.) unless otherwise indicated or the context otherwise requires. ''UGG'' refers to United Grain Growers Limited and its subsidiaries as they existed prior to the merger of the businesses of United Grain Growers Limited and Agricore Cooperative Ltd. completed on November 1, 2001.

FORWARD-LOOKING STATEMENTS

This prospectus includes or incorporates by reference certain statements that are ''forward-looking statements''. All statements, other than statements of historical fact, included or incorporated by reference in this prospectus that address activities, events or developments that the Company or its management expects or anticipates will or may occur in the future, including such things as anticipated synergies resulting from the Merger, future capital expenditures (including the amounts and nature thereof), business strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of its business and operations, plans and references to the future success of the Company, and other such matters, are forward-looking statements. These forward-looking statements are based on certain assumptions and analyses made by the Company and its management in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company and its management is subject to a number of risks and uncertainties, including those discussed under ''Risk Factors'' and elsewhere in this prospectus and the documents incorporated by reference. These risk factors include: poor weather conditions; agricultural commodity prices; the Company's financial leverage; the Company's additional funding requirements; international trade and uncertainty; competition; domestic regulation; environmental risks; diseases and other livestock industry risks; acceptance of genetically modified products; potential labour disruptions; the Company's dependence on key personnel; technological advances; credit risk; foreign exchange risk; integration risks and costs related to the Merger; and competition matters related to the Merger. Certain of these risk factors are beyond the control of the Company. Consequently, all of the forward-looking statements made in this prospectus and the documents incorporated herein by reference are qualified by these cautionary statements and other cautionary statements or factors contained herein or in documents incorporated by reference herein, and there can be no assurance that the actual results or developments anticipated by the Company and its management will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

PROSPECTUS SUMMARY

The following information is a summary only and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Certain capitalized terms used but not defined in this summary are defined elsewhere in this prospectus.

Agricore United

United Grain Growers Limited, carrying on business as ''Agricore United'' (''Agricore United'' or the ''Company'') is one of Canada's leading agri-businesses, formed by the merger of the businesses of United Grain Growers Limited and Agricore Cooperative Ltd. (''Agricore'') on November 1, 2001 (the ''Merger'').

Business of the Company

Agricore United's business consists of linking farmers to end-users of agricultural commodities through the provision of a wide range of goods and commercial services. The Company is Western Canada's largest grain handling and merchandising company by volume, Western Canada's largest crop production services provider and one of Western Canada's largest manufacturers and suppliers of livestock feed products. The following are the Company's principal business activities:

- ***Grain Handling and Merchandising***: contracting, marketing and transporting grain from the farm to end-use markets using the Company's 154 country grain elevators, 151 stand-alone farm service centres and seven port terminals in which it has an interest;
- ***Crop Production Services***: manufacturing, distributing and retailing crop inputs to farmers, including fertilizers, crop protection products and seed, and providing crop management services using the Company's country elevator locations and stand-alone farm service centres;
- ***Livestock Services***: formulating and manufacturing feed using the Company's seven feed mills, two pre-mix manufacturing facilities and one specialized protein meal blending facility, and retailing feed through the Company's facilities and through a dealer network of approximately 50 outlets; and
- ***Complementary Businesses***: engaging in a number of complementary businesses, including agri-food processing businesses, farm business communications and financial services.

The Company's pro forma earnings before interest and securitization expenses, unusual items and income taxes (''EBIT'') for the year ended July 31, 2001 from grain handling and merchandising, crop production services, livestock services and complementary businesses represented 33.7%, 52.9%, 8.4% and 5.0% of the Company's pro forma EBIT, respectively.

Agricore United's strategy is to focus on meeting the complete business needs of its customers, in order to build long-term value for its shareholders. In the short term, the most important management priority will be capitalizing on the opportunities created by the Merger, including capturing the expected net synergies from the Merger.

The Merger created a more competitive and profitable agri-business company that can provide services to Western Canadian farmers in a more efficient and cost-effective manner. As a result of the Merger, Agricore United is one of the leading players in the Canadian grain industry. The principal reasons for the Merger include the following:

- the Merger created Western Canada's largest grain handling and merchandising company and largest crop production services provider, with pro forma revenue for the year ended July 31, 2001 of approximately $4.9 billion;
- the Merger creates the opportunity for the Company to achieve substantial operational advantages and efficiencies, including estimated annual net synergies of $47 million by July 31, 2004;
- the Merger created an entity with a much larger market capitalization, resulting in greater liquidity for shareholders and enhancing the Company's ability to access public markets for additional capital should it be required; and

- the Merger has positioned the Company to capitalize on a well-developed and strategically-located infrastructure network of port terminals, and country elevators and farm service centres in Manitoba, Saskatchewan, Alberta and northeastern British Columbia, with increased geographical and product diversity.

The Company benefits from a strategic alliance with its largest shareholder, Archer Daniels Midland Company (''ADM''), one of the world's leading agri-businesses. ADM operates in 60 countries worldwide and is one of the largest wheat millers and a significant processor of oilseeds in Canada. The Company believes that its relationship with ADM has created significant benefits and opportunities for the Company by strengthening the Company's position in the Canadian grain handling business and by enabling the Company to benefit from ADM's transportation expertise and database concerning world grain export markets. ADM has also agreed to purchase Limited Voting Common Shares under this offering. See '' – The Offering – Principal Shareholder''.

The Offering

Offered Shares		
Agricore United	6,709,359	Limited Voting Common Shares
Selling Shareholder	6,290,641	Limited Voting Common Shares
Total	13,000,000	Limited Voting Common Shares

Price $8.00 per share

Shares to be Outstanding after the Offering 44,011,744 Limited Voting Common Shares(1)
1,105,188 Series A Convertible Preferred Shares

Over-Allotment Option 1,006,403 Limited Voting Common Shares

Principal Shareholder ADM, the Company's principal shareholder and one of the world's leading agri-businesses, has advised the Company that it will purchase 1,720,246 Limited Voting Common Shares under this offering pursuant to the exercise of its pre-emptive rights. After giving effect to the offering and ADM's purchase, ADM will own approximately 19% of the outstanding Limited Voting Common Shares. See ''Merger and Related Transactions – Amendments to Strategic Alliance with Archer Daniels Midland Company''.

Selling Shareholder The selling shareholder is Agricore Assisted Sales Corporation, a corporation newly-incorporated in connection with the assisted sales program (the ''Assisted Sales Program'') established by the Company to assist the former shareholders and equity members of Agricore to sell the Limited Voting Common Shares that they received in connection with the Merger in an orderly manner. See ''Selling Shareholder'' and ''Merger and Related Transactions – Description of the Merger Transaction''.

Corporate Structure The Company has both members and shareholders. Members, generally, are farming customers of the Company. Members are entitled, through a system of delegate voting based on territorial representation, to elect 12 of the 15 directors of the Company. Holders of Limited Voting Common Shares are entitled to elect the remaining three directors. The Company is governed by the *United Grain Growers Act*, a Special Act of the Parliament of Canada, which incorporates by reference certain of the provisions of the *Canada Business Corporations Act*, but not all of the provisions relating to the rights of shareholders. See ''Description of Corporate Structure'' and ''Risk Factors – Risks Related to the Limited Voting Common Shares''.

Dividend Policy The board of directors of the Company intends to declare and pay annual dividends on the Limited Voting Common Shares of approximately $0.25 per share and on the Series A Convertible Preferred Shares of $1.00 per share. This policy will be reviewed from time to time in light of the Company's cash flow, earnings, financial position, and other factors considered relevant by the board of directors. See ''Dividend Record and Policy''.

Use of Proceeds The net proceeds to the Company from this offering will be used to reduce outstanding bank indebtedness of the Company. All proceeds from the sale of Limited Voting Common Shares hereunder by Agricore Assisted Sales Corporation will be paid to the former Agricore shareholders and equity members participating in the Assisted Sales Program. See ''Use of Proceeds'' and ''Selling Shareholder''.

Eligibility for Investment	In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Company, and Fasken Martineau DuMoulin LLP, counsel to the Underwriters, the Offered Shares, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the ''Tax Act'') and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. In the opinion of such counsel, the Offered Shares, if issued on the date hereof, would not be foreign property for the purposes of Part XI of the Tax Act.
Risk Factors	Certain risk factors should be carefully reviewed and evaluated by prospective investors before purchasing Limited Voting Common Shares, including risks related to: poor weather conditions; agricultural commodity prices; the Company's financial leverage; the Company's additional funding requirements; international trade and uncertainty; competition; domestic regulation; environmental risks; diseases and other livestock industry risks; acceptance of genetically modified products; potential labour disruptions; the Company's dependence on key personnel; technological advances; credit risk; foreign exchange risk; integration risks and costs related to the Merger; competition matters related to the Merger; limited voting rights of the Limited Voting Common Shares and other provisions of the *United Grain Growers Act* that may discourage third parties from attempting to take control of the Company; and market price fluctuations. See ''Risk Factors''.
TSE Symbol	UGG

(1) Based on the number of shares outstanding as of December 10, 2001. Excludes 341,028 Limited Voting Common Shares issuable upon the exercise of outstanding options granted under the Company's executive stock option plan, 1,105,188 Limited Voting Common Shares issuable upon the exercise of conversion rights of the outstanding Series A Convertible Preferred Shares and up to 1,006,403 Limited Voting Common Shares issuable on the exercise of the underwriters' over-allotment option.

Summary Selected Consolidated Financial Data

The following table should be read in conjunction with the consolidated financial statements of the Company, the pro forma financial statements and other information (including the discussion under ''Liquidity, Capital Resources and Outlook'') in this prospectus and the management's discussion and analysis of financial condition and results of operations of the Company incorporated by reference. The summary selected historical financial information is derived from the consolidated financial statements of United Grain Growers Limited and Agricore included in this prospectus. The summary selected pro forma financial information as at and for the year ended July 31, 2001 is derived from the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statement of operations of the Company included in this prospectus, which give effect to the Merger as if it had occurred on August 1, 2000.

	Agricore United	United Grain Growers Limited		Agricore Cooperative Ltd.	
	Fiscal Year Ended July 31, 2001 (Pro Forma)	Fiscal Year Ended July 31, 2001	Fiscal Year Ended July 31, 2000	Fiscal Year Ended July 31, 2001	Fiscal Year Ended July 31, 2000
	(unaudited)	(in thousands, except per share amounts)			
Statement of Operations Data:					
Sales and other operating revenue	$4,971,133	$1,854,934	$1,779,789	$3,151,752	$2,938,729
Gross profit and revenue from services	574,088	222,860	201,666	351,228	330,469
Operating, selling and administrative expenses	412,252	158,088	154,250	252,764	258,743
Depreciation and amortization	83,073	28,138	26,380	61,050	57,694
Interest and securitization expenses	54,913	19,139	17,350	35,774	28,752
Earnings (loss) from operations	23,850	17,495	3,686	1,640	(14,720)
Other income (loss)	113	(699)	1,405	812	5,230
Unusual items[(1)]	(47,190)	(8,158)	(595)	(39,032)	4,003
Recovery of (provision for) income taxes					
Unusual items[(1)]	18,722	3,549	587	15,173	—
Earnings before unusual items	(3,586)	(441)	(2,900)	541	6,750
Net earnings (loss)	$ (8,091)	$ 11,746	$ 2,183	$ (20,866)	$ 1,263
EBITDA[(2)]	$ 161,949	$ 64,073	$ 48,821	$ 99,276	$ 76,956
EBIT[(3)]	$ 78,876	$ 35,935	$ 22,441	$ 38,226	$ 19,262
Basic earnings (loss) per share[(4)]	$ (0.25)	$ 0.63	$ 0.06	N/A	N/A

	Agricore United As at July 31, 2001		United Grain Growers Limited As at July 31,		Agricore Cooperative Ltd. As at July 31,	
	Pro Forma[(5)]	As Adjusted[(6)]	2001	2000	2001	2000
	(unaudited)		(in thousands)			
Balance Sheet Data:						
Total assets	$1,762,344	$1,762,344	$603,282	$599,431	$1,250,720	$1,273,449
Short-term debt	$ 476,575	$ 452,744	$ 74,058	$ 80,424	$ 357,249	$ 333,973
Long-term debt	$ 342,741	$ 318,910	$122,387	$136,198	$ 265,622	$ 304,114
Accounts payable and accrued	$ 403,965	$ 403,965	$114,434	$ 96,755	$ 268,505	$ 221,713
Other liabilities	$ 65,671	$ 63,011	$ 58,252	$ 59,781	$ 44,332	$ 35,267
Retained earnings	$ 74,919	$ 74,919	$ 74,919	$ 66,933	$ 87,741	$ 141,416
Shareholders' capital and members' equity	$ 398,473	$ 448,795	$159,232	$159,340	$ 227,271	$ 236,966
Total liabilities and shareholders' capital and members' equity	$1,762,344	$1,762,344	$603,282	$599,431	$1,250,720	$1,273,449

(1) Unusual items include restructuring provisions related to rationalization of country operations (2001 – $54 million; 2000 – $11 million); non-cash gains on partial settlement of defined benefit pension plan obligations (2001 – $6.8 million; 2000 – $10.4 million); and recovery from the wind-up of an affiliate (2000 – $4 million).

(2) EBITDA represents earnings (loss) before interest and securitization expenses, depreciation and amortization expense, unusual items and recovery of (provision for) income taxes.

(3) EBIT represents earnings (loss) before interest and securitization expenses, unusual items and recovery of (provision for) income taxes.

(4) For the purposes of the basic earnings (loss) per share calculations, the weighted average number of Limited Voting Common Shares outstanding were: for the year ended July 31, 2001 (pro forma) – 37,310,000; for the year ended July 31, 2001 – 16,818,000; and for the year ended July 31, 2000 – 16,820,000.

(5) After giving effect to the Merger on the basis of the assumptions set out in the unaudited pro forma consolidated balance sheet included in this prospectus.

(6) As adjusted to give effect to this offering (after deducting the Underwriters' fee and the estimated expenses of this offering) and the use of net proceeds described under ''Use of Proceeds'', assuming that the Underwriters' over-allotment option is not exercised.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed with the various securities commissions or similar authorities in certain provinces of Canada are specifically incorporated by reference and form an integral part of this prospectus:

(a) the Company's Annual Information Form dated December 15, 2000 for the fiscal year ended July 31, 2000;

(b) the audited comparative annual consolidated financial statements of the Company, including the notes thereto, for the year ended July 31, 2001, together with the auditors' report thereon;

(c) the management's discussion and analysis of financial condition and results of operations of the Company for the year ended July 31, 2001;

(d) the management proxy circular of the Company dated September 27, 2001, issued in connection with the annual and special meeting of shareholders of the Company held on November 7, 2001, excluding the sections entitled ''Corporate Governance Practices'', ''Report on Executive Compensation'' and ''Performance Graph'';

(e) the material change report of the Company dated August 9, 2001 filed in connection with the announcement of the proposed plan of arrangement involving the Company, Agricore and a wholly-owned subsidiary of Agricore and other related matters (collectively, the ''Merger''); and

(f) the material change report of the Company dated November 9, 2001 filed in connection with the completion of the Merger.

Any annual information form, material change reports (excluding confidential material change reports), interim unaudited financial statements (and the management's discussion and analysis of financial condition and results of operations of the Company included in the interim reports for such periods) and management proxy circular filed by the Company with any securities commission or similar regulatory authority after the date of this prospectus and prior to the termination of any offering under this prospectus shall be deemed to be incorporated by reference into this prospectus.

Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document which it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in certain provinces of Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Shareholder Services Department of the Company, 28th Floor, 201 Portage Avenue, TD Centre, Winnipeg, Manitoba R3C 3A7, telephone number (204) 944-2223 or 1-800-661-4844. For the purpose of the Province of Quebec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the Shareholder Services Department of the Company at the above-mentioned address and telephone number.

WESTERN CANADIAN AGRICULTURAL INDUSTRY

In Western Canada (the provinces of Manitoba, Saskatchewan, Alberta and British Columbia) there are over 140,000 farms, approximately 30% of which have annual gross revenues exceeding $100,000. The following is a brief overview of the two principal components of Western Canadian agriculture, grain and livestock.

Western Canadian Grain Handling Industry

Western Canada provides an excellent environment for growing grain. Canada is a significant producer and exporter of grains, with an approximate 18% share of world wheat trade. The bulk of productive capacity is in Western Canada. Over the ten crop years ending July 31, 2000, 95% of Canada's average production (50.5 million metric tonnes) of the ''major'' grains (wheat, barley, canola, oats, flax and rye) came from this region. Over the last 40 years, Canada's annual production of the major grains has increased from 31.4 million metric tonnes to 51.7 million metric tonnes. Supporting Canada's grain production is a substantial crop production services industry. In the 2000 calendar year, farm operating expenditures in Western Canada totalled more than $4.4 billion, including $2.8 billion spent on the principal crop production inputs, consisting of approximately $1.4 billion spent on fertilizer, $1 billion spent on crop protection products and $441 million spent on seed.

Handling begins with the transportation of the grain from the farm to the country (or primary) elevator. The grain is weighed and graded, and dockage (an estimate of foreign material, such as weeds, seeds, broken kernels and foreign materials, including other grains) is assessed. The farmer is then issued a cheque for saleable grain delivered, based upon the then current price for the grade, reduced by charges levied for freight, elevation, inspection and other items. Grain may be stored in the country elevator before it is shipped to a domestic customer, such as a flour mill, feed mill or maltster, or to a port terminal. At either the country elevator or at the port terminal, grain is cleaned to standards set by the Canadian Grain Commission. At the port terminal, the grain for export is again weighed, inspected, graded and dockage is assessed. It is also cleaned, if necessary, and is held until it is transported to end-use customers.

Regulation

Canadian agriculture, in general, and the Western Canadian grain industry in particular, is highly regulated. While provincial regulation plays a role, most of the regulation affecting the grain industry is federal. The principal Canadian federal statutes are the *Canadian Wheat Board Act*, the *Canada Grain Act* (the ''Grain Act'') and the *Canada Transportation Act* (the ''Transportation Act''). Farming and agri-business are also affected by Canadian federal and provincial environmental laws, which impact upon the distribution and retailing of fertilizer and crop protection products.

The Canadian Wheat Board

The principal mandate of The Canadian Wheat Board (the ''CWB'') is to market in an orderly manner, in interprovincial and export trade, grain grown in Canada. The precise role of the CWB varies by commodity, by the use to which a commodity is put and by the market into which the commodity is sold. The CWB has a monopoly over the domestic sale of Canadian wheat used for human consumption and barley used for malting purposes. The CWB also is the sole export marketing agency for all Canadian wheat and barley. The grains regulated by the CWB are known as ''Board Grains''. Grains not regulated by the CWB (principally oats, flax, rye, canola, domestically consumed feed barley and feed wheat, and peas and other special crops) are known as ''Non-Board Grains''. Linola®, canola and flax are also known as ''oilseeds'' because they are principally used in the production (also known as ''crushing'') of edible and non-edible oils, such as Linola oil, canola oil and linseed oil.

The CWB also performs a coordinating role within Canada's grain handling and marketing system by arranging for the sale of Board Grains to domestic or international customers, either directly or through an accredited exporter. Once sales have been confirmed, it is the CWB's responsibility to ensure that the proper quantity and quality of Board Grains is available for the purchaser at an agreed upon location: principally either at port terminals in Thunder Bay, Ontario or Churchill, Manitoba, one of several transfer elevators along the St. Lawrence Seaway, one of the west coast port terminals in Vancouver or Prince Rupert, British Columbia, or at another location specified by the domestic, U.S. or Mexican end-use customer.

The CWB undertakes many activities aimed at managing the flow of Board Grain from farmer to purchaser, including ''delivery'' management (through the administration of contract calls for Board Grains), the determination of the quantity and quality of Board Grains available for sale at the port terminals or other locations at which it should be sold, and the coordination of the movement of Board Grains by rail to port terminals and domestic or foreign end-use customers (including the allocation of rail cars to grain handling companies so they may ship Board Grains). The CWB also seeks to ensure that grain is in position at port terminals to meet sales commitments.

Grain handling companies, including Agricore United, act as agents in the handling of Board Grains, with typically about 60% of these firms' total grain volume handled on behalf of the CWB, although the trend is to a lower proportion of Board Grains. An area of importance to both farmers and the grain handling companies is the manner in which prices are set and payment is made for Board Grains. Each year, on or before August 1, the CWB, by way of a Government of Canada Order-in-Council, announces the initial price (''Initial Price'') for Board Grains. The Initial Price is a form of advance to farmers, paid per metric tonne of grain delivered. Pursuant to a handling agreement (''Handling Agreement'') with the CWB, grain handling companies determine the price paid to farmers for Board Grains by taking the Initial Price and deducting freight, elevation, inspection and other items. Grain handling companies also collect storage revenue from the CWB for the period of time the Board Grains are stored in their facilities.

Payment of the Initial Price is financed by grain handling companies and paid to farmers on behalf of the CWB. The grain handling companies, in turn, are reimbursed for their financing costs by the CWB once the grain is unloaded at the port terminal or at a CWB domestic, U.S. or Mexican end-user facility. The CWB sells Board Grains throughout the crop year and, when a final accounting is done, remits a ''final payment'' to farmers. The final payment represents the net price achieved from all sales made in a given Board Grain of a particular grade throughout the year, on an averaged or ''pooled'' basis, less the Initial Price. In the event that the price received by the CWB is lower than the Initial Price paid, the Canadian federal government is required to bridge the shortfall.

At the end of the crop year and the beginning of a new one, grain handling companies handling Board Grains (including Agricore United) perform a two-stage inventory adjustment process. Firstly, on July 31, companies reconcile their Board Grain inventories with the records of the CWB. Differences can occur over time for a number of reasons, including gains and losses from blending, grading and shrinkage. On the basis of the valuation of the reconciled inventories, the companies will either pay to, or receive payment from, the CWB an amount required to adjust the inventories based on prices in effect on July 31. Secondly, on August 1, the companies will restate their inventories at the new Initial Prices, which results in a payment to or from the CWB, depending on whether the new Initial Prices have increased or decreased. The result of this two-stage inventory adjustment process is to adjust the value of the Company's Board Grains to the new Initial Price that the CWB will pay upon delivery in the upcoming crop year.

Recent Reforms

In June 2000, the CWB and the Government of Canada, as represented by the Minister responsible for the CWB, entered into a memorandum of understanding (the ''MOU'') designed to improve the reliability, efficiency and accountability of the Western Canadian grain handling system. In August 2001, the CWB, the Western Grain Elevator Association and the Inland Terminal Association of Canada reached a tentative three-year agreement that addresses certain issues that remain with respect to the implementation of the MOU. Specifically, under the MOU:

- the CWB will put out to tender the handling of a minimum of 25% of its wheat and barley export program during the 2001/2002 crop year (increasing to a minimum of 50% in subsequent crop years);
- a new rail car allocation policy for non-tendered Board Grains has been adopted; and
- new measures designed to ensure accountability on the part of the CWB and the grain handling companies, including third party monitoring, have been implemented.

Tendering Process

The CWB is expected to call for tenders from grain handling companies once a week for Board Grains from its wheat and barley export program and it may accept bids on any portion of the grain that it puts out to tender. The lowest grain handling tariff bid is expected to be accepted, subject to the size of the amount tendered (*e.g.*, the CWB may prefer to allocate certain minimum quantities to be delivered to a ship from a single port terminal) and past performance. The successful bidders will receive rail car allocations sufficient to transport the Board Grains from their country elevators to the port terminal. Prior to these reforms, there was no tendering process.

Rail Car Allocation

Under the new rail car allocation policy, the CWB allocates rail cars to grain handling companies on a zone basis for delivery of non-tendered Board Grains on the basis of an equal weighting of (i) the weighted average of the grain handling company's Board Grain receipts during the prior 18 weeks, and (ii) the undelivered portion of producer contracts with the CWB for delivery to a particular grain handling company. There are 13 geographic areas which make up the different zones and it is up to the companies to allocate awarded rail cars among country elevators within the zone. The CWB permits domestic end-use customers to designate the grain handling company that will handle the Board Grains they purchase. In the event that particular grain handling companies have not been provided sufficient rail cars to deliver the Board Grains that have been accepted, the CWB has retained the right to allocate rail cars by train run or station. Under the prior policy, rail cars were allocated primarily on the basis of the weighted average of the grain handling company's grain receipts during the prior 52 weeks. Under the prior policy, it was difficult for a grain handling company to increase market share because, even if a grain handling company was able to increase volume of Board Grains put through its country elevator system, it was difficult to obtain the necessary rail cars to transport the grain from the country elevators to the port terminal.

Accountability of Grain Handling Companies and the CWB

Under the agreement, grain handling companies are responsible for delivering a specified quantity, type and grade of Board Grains within a specified time. Failure to do so will result in financial penalties being assessed against the company, including storage or late vessel loading charges incurred by the CWB because of the company's non-performance. The CWB, on the other hand, is responsible for moving grain out of the port terminal within the allotted time. Failure to do so will result in the CWB being held responsible for any storage charges or additional costs incurred by the grain handling companies that arise from the CWB's non-performance.

Canadian Grain Commission

The Canadian Grain Commission (the ''Grain Commission'') is an agency of the Government of Canada, established under the Grain Act. The principal objectives of the Grain Commission and the Grain Act are the regulation of grain handling in Canada and the establishment and maintenance of quality standards for Board Grains and Non-Board Grains. The Grain Act and the regulations thereunder set out parameters for the licensing of grain dealers and licensing the operation of grain handling facilities, including such matters as the weighing, grading and treatment of grain, the monitoring of the condition of inspection equipment and facilities, the certification of grain for export purposes, the regulation of allowable charges (including maximum permitted levels) and financial integrity standards.

Operators of grain handling facilities must obtain a licence from the Grain Commission. Grain is purchased by grain handling companies at a country elevator at a quality standard determined by the Grain Commission. At either the country elevator or the port terminal, grain is cleaned to the Grain Commission's standards. If the grain is shipped to a port terminal for export, it is weighed, inspected and graded by Grain Commission staff as it is unloaded, and also as it is loaded from the port terminal onto ships or rail cars for export. The final certificate issued for each export shipment of grain is internationally recognized and accepted as the Grain Commission's guarantee of grain quality and quantity.

Canada Transportation Act

The Transportation Act establishes the legal framework for the transportation of grains in Western Canada. Under the Transportation Act, the railways are subject to a cap on the total revenues they can generate on the transport of wheat, barley, oats, flax, rye and canola to port terminals. The cap is adjusted annually depending on the volume of grain transported, the average length of haul and inflation. The railways are free to establish freight rates within this overall revenue cap.

In recent years, CN Rail and the Canadian Pacific Railway have increased the freight discounts available to grain handling companies for multiple car shipments. The discounts currently range from $1.00 per metric tonne on blocks of 25 cars to $6.00 per metric tonne on blocks of 100 or more cars. Grain companies have rapidly increased the amount of grain shipped under these discounted rates. Approximately 70% of grain traffic is now shipped in blocks of 25 cars or greater, compared to about 15% in 1997, and the Company expects the prevalence of such multi-car blocks to increase to 90% by 2003.

Non-Board Grains

Non-Board Grains are subject to the Grain Act, and certain Non-Board Grains are subject to the Transportation Act, but are not subject to the *Canadian Wheat Board Act*. As a result, the price paid by grain handling companies to farmers for Non-Board Grains is directly determined by market forces. Grain handling companies make arrangements for the rail transportation of Non-Board Grains to port terminals or directly to end-use customers.

Industry Trends

World Grain and Oilseed Outlook

According to a recent report prepared by the Organization for Economic Cooperation and Development (the ''OECD Report''), the bottom of the market cycle for wheat and coarse grains was reached in the 1999/2000 crop year. Demand for cereal grains (principally wheat, barley, oats and rye) currently exceeds production, which has been reduced because of a prolonged period of low prices. Large surpluses of cereal grains are being reduced. The OECD Report predicts that world growth in cereal grain consumption will increase through 2006 at a rate of 1.5% annually compared to 1.1% experienced over the last decade. Most of the demand for cereal grains will be from developing countries as increased wealth results in a shift in consumption from rice to cereal grains. The OECD Report predicts that world grain exports will increase significantly by 2006. The OECD Report predicts a slight increase in world wheat and coarse grain prices by 2006, with the steepest increases coming in 2003 and 2004, resulting in world wheat prices of approximately U.S.$148 per metric tonne. While this is higher than today, adjusted for expected inflation it is still lower than the average price from 1995 to 1999.

The OECD Report predicts that oversupply of oilseeds, partially due to international government support plans, will continue to put downward pressure on oilseed prices. The United States continues to be the biggest player in the international oilseed market, and its domestic support policies continue to shield producers from declining world prices, resulting in steady increases in production. Another constraint on price recovery is increased supply from South American countries resulting from changes in economic policies. Production in Argentina and Brazil rose by 5.5 million metric tonnes between 1997 and 2000, compared to an increase of 2.4 million metric tonnes in the United States. While it continues to be a net importer, oilseed production in China is growing quickly, by about one million metric tonnes per year.

International grain and oilseed markets continue to be affected by high levels of subsidies and non-tariff barriers to support domestic production. In particular, farmers of Canada's main competitors, the United States and the European Union, continue to receive substantially higher levels of farm income support than Canada's farmers. Recent World Trade Organization (''WTO'') negotiations may lead to a reduction of these subsidies and non-tariff barriers in the longer term. On November 14, 2001, members of the WTO announced an agreement to launch a new round of global trade negotiations to be concluded by January 1, 2005. One of the stated objectives of these negotiations is to seek the reduction, with a view to phasing out, of all forms of agricultural export subsidies, substantial reductions in trade-distorting domestic support and substantial improvements in market access for agricultural producers around the world.

Grain Elevator Consolidation

Over the last few years, the Western Canadian grain handling industry has undergone a rapid and significant transformation as a result of grain elevator consolidation. As a result of the abolition of Canadian federal government rail rate subsidies in 1995 and subsequent rail line abandonment, and the availability of discounts from the railways for multi-car loading, Agricore United and other grain handling companies have closed (and are continuing to close) significant numbers of older and less efficient country grain elevators. These conventional elevators have been replaced with new, more efficient, high throughput country elevators (''HTEs'') capable of loading 50 or more rail cars in a 12-hour period. The newer HTEs with large numbers of car spots are capable of handling grain at a much lower cost per metric tonne and achieving significantly higher rates of inventory turns. Whereas smaller elevators with less than 25 car spots have traditionally achieved four to five inventory turns per year, new HTEs have achieved as many as 19 inventory turns. As a result, HTEs serve farms across a wide distance from the elevator in order to achieve efficient volume.

Over the past 40 years, while the volume of grain handled has increased, the number of Western Canadian country grain elevators has decreased significantly as part of an ongoing process of rationalization in the industry. The total number of licensed country elevators in Western Canada has declined from approximately 5,200 in the early 1960s to 588 as at October 19, 2001 and grain handling industry storage capacity has decreased from approximately 10.2 million metric tonnes in the early 1960s to approximately 6.0 million metric tonnes as at October 19, 2001. The Company believes that the country grain elevator consolidation trend will continue and estimates that the number of country elevators in Western Canada will decrease by a further 50% in the next few years.

However, despite the decrease in the number of country grain elevators and in industry storage capacity, the annual throughput or handling capacity (the volume of grain that can be handled in a crop year) of the Western Canadian grain handling industry has increased significantly during the last four years. The current Western Canadian grain handling capacity significantly exceeds Canada's average annual production of major grains of 50.5 million metric tonnes over the ten crop years ending July 31, 2000. This overcapacity, resulting from the ability of HTEs to handle significantly more grain than older, conventional country grain elevators, is cited by The Dominion Bond Rating Service (DBRS) as a major competitive concern in a number of its recent grain handling company ratings. The Merger will allow the Company to further reduce its excess grain handling capacity by closing duplicative country grain elevators. In addition, the Company believes that the industry overcapacity will promote further consolidation in the Western Canadian grain handling industry.

Effect of Poor Weather Conditions on 2001/2002 Crop Year

The southern portions of Saskatchewan and Alberta experienced a severe drought during the summer of 2001. Statistics Canada has estimated that total Canadian exports of grains and oilseeds for the industry as a whole will be approximately 15% lower for the 2001/2002 crop year than for the 2000/2001 crop year. For a discussion of the impact of this drought on the Company, see ''Liquidity, Capital Resources and Outlook – Outlook''.

Western Canadian Livestock Industry

Western Canada's livestock industry has been the area of agriculture that has delivered the most consistent growth and financial reward for agricultural industry participants over the past decade. Western Canadian farm cash receipts from animal agriculture increased from $5.8 billion in 1995 to $7.5 billion in 1999, the most recent year for which statistics are available, representing 45% of total farm cash receipts. This total was divided between beef ($4.7 billion), hogs ($1 billion), dairy ($926 million) and poultry ($665 million). Growth in the livestock industry has been driven by growth in export demand. A significant portion of Western Canadian beef and hog production is exported. Dairy and poultry markets are primarily domestic in nature, as supply management boards mandated by Canadian federal and provincial governments govern them.

Export demand for beef and pork is strong. Western Canada is one of the world's lowest cost areas for production of high quality grain-fed pork and beef. This competitive advantage is driven by an ideal climate for growing hogs and beef, by abundant and competitively priced feed grains, and by the availability of expertise and capital to these business ventures. Domestic demand for poultry and dairy has benefited from population growth and increased per capita consumption. Although less significant, Western Canada has also seen increased farm-raised game, bison, horse and exotic animal production.

The major cost component in all livestock sectors is feed. Western Canada is typically a surplus production area for feed grains and oilseeds used in feeding livestock. In addition, as secondary processing of primary agricultural commodities like canola, wheat and potatoes has grown, so has the availability of by-products from these industries for livestock production.

Feed Industry

The feed industry has also undergone growth over the last decade primarily due to growth in export demand in the beef and hog sectors. Western Canadian farmers spent approximately $1.5 billion on livestock feed products during the 2000 calendar year. The feed industry has experienced consolidation in the past 10 years. As a result there are currently only six major livestock feed companies operating in more than one province in Western Canada. Local feed suppliers are gradually being absorbed by the major companies or are closing if their scale is too small or their facilities become obsolete. In order to meet the demands and specifications of producers and consumers, feed manufacturers are becoming more sophisticated producers focussed on animal nutrition.

Feed suppliers fall into one of two major categories: manufacturers of complete feeds and supplements, and manufacturers of pre-mixes. Manufacturers of complete feeds and supplements provide complete feed formulations, usually also accompanied by additional manufacturing processes. These feeds and supplements typically contain all or a significant portion of the total nutritional requirements of the livestock being fed. Manufacturers of pre-mixes supply a base mix of vitamins and minerals to livestock producers who do their own complete feed manufacturing.

The manufacture of complete feeds and supplements has grown over the past decade. This growth has been fuelled by feed company involvement in livestock financing and/or ownership. In addition, an earlier trend to on-farm feed production has been limited by the advent of larger, more cost effective feed mills which can compete with on-farm milling. Also, recent growing consumer concern over food safety has resulted in regulatory changes with which on-farm feed manufacturing operations may have difficulty complying.

AGRICORE UNITED

United Grain Growers Limited, carrying on business as ''Agricore United'' (''Agricore United'' or the ''Company''), is one of Canada's leading agri-businesses. Agricore United is the result of the combination of the businesses of United Grain Growers Limited and Agricore Cooperative Ltd. (''Agricore'') on November 1, 2001 (the ''Merger'').

The Company was originally incorporated in 1906 under *The Manitoba Joint Stock Companies Act* as The Grain Growers' Grain Company Limited. In 1911, the Company received a Dominion charter under a Special Act of the Parliament of Canada. In 1917, The Grain Growers' Grain Company Limited and The Alberta Farmers' Co-operative Elevator Company Limited amalgamated to form United Grain Growers Limited. In December 1992, the Company was continued under the *United Grain Growers Act* (the ''UGG Act''), a Special Act of the Parliament of Canada. The Company's corporate structure was reorganized in 1993 prior to the Company's initial public offering.

Agricore was the result of the amalgamation of Manitoba Pool Elevators and Alberta Wheat Pool under *The Co-operatives Act, 1996* (Saskatchewan) on November 1, 1998. Manitoba Pool Elevators was organized in 1925 and operated its business in Manitoba continuously until the 1998 amalgamation. Alberta Wheat Pool was organized in 1923 and operated its business continuously in Alberta and northeastern British Columbia until the 1998 amalgamation.

The Merger was effected on November 1, 2001 pursuant to a court-approved plan of arrangement involving the Company, Agricore and a wholly-owned subsidiary of Agricore. Pursuant to the plan of arrangement:

- Agricore was continued from a co-operative existing under *The Co-operatives Act, 1996* (Saskatchewan) to a corporation existing under the *Canada Business Corporations Act* (the ''CBCA'');
- the Company acquired all of the equity of Agricore from its shareholders and equity members in exchange for 20,492,305 Limited Voting Common Shares; and
- Agricore and its wholly-owned subsidiary Agricore Ltd. were amalgamated.

As a result, Agricore's successor corporation, Agricore Ltd., is now a wholly-owned subsidiary of the Company existing under the CBCA.

The registered head office of the Company is 28th Floor, 201 Portage Avenue, TD Centre, Winnipeg, Manitoba R3C 3A7.

BUSINESS OF THE COMPANY

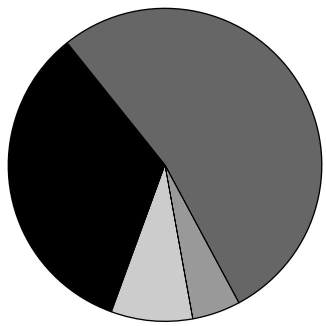
General

Agricore United's business consists of linking farmers to end-users of agricultural commodities through the provision of a wide range of goods and commercial services. The Company is Western Canada's largest grain handling and merchandising company by volume, Western Canada's largest crop production services provider and one of Western Canada's largest manufacturers and suppliers of livestock feed products. The following are the Company's principal business activities:

- ***Grain Handling and Merchandising***: contracting, marketing and transporting grain from the farm to end-use markets using the Company's 154 country grain elevators, 151 stand-alone farm service centres and seven port terminals in which it has an interest;

- ***Crop Production Services***: manufacturing, distributing and retailing crop inputs to farmers, including fertilizers, crop protection products and seed, and providing crop management services using the Company's country grain elevator locations and stand-alone farm service centres;
- ***Livestock Services***: formulating and manufacturing feed using the Company's seven feed mills, two pre-mix manufacturing facilities and one specialized protein meal blending facility, and retailing feed through the Company's facilities and through a dealer network of approximately 50 outlets; and
- ***Complementary Businesses***: engaging in a number of complementary businesses, including agri-food processing businesses, farm business communications and financial services.

The following graph illustrates the percentage of Agricore United's pro forma earnings before interest and securitization expenses, unusual items and income taxes (''EBIT'') for the year ended July 31, 2001 generated by each principal business activity:



Agricore United's strategy is to focus on meeting the complete business needs of its customers, in order to build long-term value for its shareholders. In the short term, the most important management priority will be capitalizing on the opportunities created by the Merger, including capturing the expected net synergies from the Merger. See ''– Merger of United Grain Growers Limited and Agricore Cooperative Ltd. – Synergies''.

Merger of United Grain Growers Limited and Agricore Cooperative Ltd.

Rationale

The Merger created a more competitive and profitable agri-business company that can provide services to Western Canadian farmers in a more efficient and cost-effective manner. As a result of the Merger, Agricore United is one of Canada's leading agri-businesses. The principal reasons for the Merger include the following:

- the Merger created Western Canada's largest grain handling and merchandising company and largest crop production services provider, with pro forma revenue for the year ended July 31, 2001 of approximately $4.9 billion;
- the Merger creates the opportunity for the Company to achieve substantial operational advantages and efficiencies, including estimated annual net synergies of $47 million by July 31, 2004;
- the Merger created an entity with a much larger market capitalization, resulting in greater liquidity for shareholders and enhancing the Company's ability to access public markets for additional capital, should it be required; and
- the Merger has positioned the Company to capitalize on a well-developed and strategically-located infrastructure network of port terminals, and country elevators and farm service centres in Manitoba, Saskatchewan, Alberta and northeastern British Columbia, with increased geographical and product diversity.

Synergies

The Company expects to realize substantial operational and administrative efficiency gains as a result of the Merger. The Company estimates that the total annual synergies resulting from the Merger will be approximately

$53 million and that these annual synergies will be fully realized by July 31, 2004. In addition, the Company estimates that annual revenue losses due to closures of duplicate grain and crop input retail locations following the completion of the Merger will be approximately $6 million annually by July 31, 2004. Accordingly, the Company estimates that by July 31, 2004, the net synergies resulting from the Merger will be approximately $47 million annually. On an after-tax basis, the Company estimates that, before giving effect to this offering, the estimated total annual synergies represent approximately $0.18 in earnings per share before unusual items in fiscal 2002 and $0.73 in earnings per share before unusual items in fiscal 2003. Assuming annual revenue losses relating to the Merger of $2 million in fiscal 2002 and $4 million in fiscal 2003, the Company estimates that, before giving effect to this offering, the estimated annual net synergies represent approximately $0.15 in earnings per share before unusual items in fiscal 2002 and $0.67 in earnings per share before unusual items in fiscal 2003.

The following table provides a detailed breakdown of the total synergies that the Company expects to realize in the first year following the Merger and in the Company's 2002, 2003 and 2004 fiscal years:

	Year Ended			
	July 31, 2002	**October 31, 2002**	**July 31, 2003**	**July 31, 2004**
	(millions)			
Grain handling and merchandising:				
country grain elevator operations	$ 5.0	$ 9.7	$19.0	$21.7
trading and port terminal operations	2.0	4.4	9.2	9.7
Crop production services	4.0	8.0	10.6	10.6
Administration and information technology	4.0	5.3	12.6	13.4
Farm business communications	0.2	0.3	0.4	0.4
Capital tax (increase)	(3.0)	(3.0)	(2.8)	(2.8)
Total	$12.2	$24.7	$49.0	$53.0[1]

(1) As discussed above, the Company expects annual revenue losses related to the Merger to be $6 million, resulting in net annual synergies of $47 million by July 31, 2004.

Grain Handling and Merchandising: The Company expects cost savings from its country elevator operations to be realized principally from the elimination of redundant operating locations. These cost savings will include reduced labour and operating expenses as facilities are closed. The Merger also enables the Company to eliminate additional excess grain handling capacity by closing duplicative country grain elevator locations.

Cost savings from the Company's trading and port terminal operations are expected to be achieved through staff reductions in grain marketing, special crops marketing, transportation and accounting. As well, the Company intends to close one port terminal in Thunder Bay, Ontario, reducing terminal staffing and operating costs, while continuing to operate its other two Thunder Bay, Ontario port terminals, to increase efficiency. In Vancouver, the Company expects to operate its port terminals to specialize in particular types of grain. As a result, the Company expects operating expenses to be reduced due to efficiency gains resulting from handling fewer types of grains at each facility and improved logistics.

Crop Production Services: The Company expects to achieve cost savings from its crop production services operations by reducing staff currently involved in seed marketing and research, administration, distribution, procurement and accounting. As well, the Company expects to achieve additional volume discounts on the purchase of fertilizers, chemicals and seed.

Other Expenses: The Company expects to reduce administration, accounting, legal and information technology costs by reducing staffing levels as existing administration and information technology operations are combined. The Company expects that as redundant country elevator operations are eliminated, information technology expenses will be further reduced.

The Company also expects to realize cost savings in its farm business communications business through eliminating staff duplication.

Agricore was not subject to provincial and federal capital taxes because it was a cooperative. As a result of the Merger, the increased capital of Agricore United will be subject to capital taxes, which will reduce annual cost savings by approximately $3 million.

Merger Costs

It is estimated that one-time Merger costs will total approximately $60 million, incurred as to $47 million in fiscal 2002, $11 million in fiscal 2003 and $2 million in fiscal 2004. The fiscal 2002 merger costs are broken down as follows: severance and retention costs ($20 million), Merger transaction costs ($14 million), information technology conversion costs ($4 million), redundant facility demolition costs ($2 million), communications and signage ($5 million) and other miscellaneous matters ($2 million).

Strategic Alliance with Archer Daniels Midland Company

In 1997, the Company and ADM created a strategic alliance in respect of the Company's grain handling business and ADM's downstream processing operations. ADM is one of the world's leading agri-businesses, listed on the New York Stock Exchange with a market capitalization of approximately U.S.$10 billion. ADM operates in 60 countries worldwide and is one of the world's largest oilseed processors, with 46 oilseed crushing facilities worldwide. It is also one of the world's largest wheat millers, with 44 wheat flour mills worldwide. ADM is the largest flour miller in North America, and one of the largest wheat millers and a significant processor of oilseeds in Canada.

The Company believes that its relationship with ADM has created significant benefits and opportunities for the Company by strengthening the Company's position in the Canadian grain handling business and by enabling the Company to benefit from ADM's transportation expertise and database concerning world grain export markets. The Company also believes that its strategic alliance with ADM will improve the Company's long-term profitability (particularly in a less regulated market) by providing an outlet as preferred supplier for larger volumes of grain as well as greater access to world grain export markets.

ADM is the largest single holder of Limited Voting Common Shares, owning approximately 19% of the outstanding Limited Voting Common Shares, and currently has two nominees on the board of directors of the Company. The agreements governing the strategic alliance were amended in connection with the Merger. The principal terms of the amended agreements are described under ''Merger and Related Transactions – Amendments to Strategic Alliance with Archer Daniels Midland Company''. ADM has advised the Company that it will purchase 1,720,246 Limited Voting Common Shares under this offering pursuant to the exercise of its pre-emptive rights. After giving effect to this offering and ADM's purchase, ADM will own approximately 19% of the outstanding Limited Voting Common Shares.

Agricore United's Business

Agricore United provides a wide range of goods and services to Western Canadian farmers, as well as marketing agricultural commodities domestically and internationally. The Company provides the customer with a ''pipeline'' of goods and services, helping farmers through the stages of the production and marketing cycle in crops and livestock. The Company's principal business activities are grain handling and merchandising, crop production services and livestock services.

Grain Handling and Merchandising

Agricore United's grain handling and merchandising business encompasses farm sales and services provided through the Company's network of 154 country grain elevators and 151 stand-alone farm service centres; port terminal services provided through the seven port terminals which the Company owns or in which it has an interest; and grain merchandising. The Company also handles and merchandises special crops. The Company is Western Canada's largest grain handling and merchandising company by volume, with a 38% share of Western Canadian grain handling volume.

Pro forma grain handling and merchandising revenue and EBIT of the Company for the year ended July 31, 2001 were $3.5 billion and $45.5 million, respectively.

Country Grain Elevators

The Company currently owns a system of 154 country elevators located throughout the crop growing regions of Manitoba, Saskatchewan, Alberta and northeastern British Columbia. Over the last decade, the Company has undertaken a substantial infrastructure renewal capital expenditure program to upgrade and replace older, smaller country elevators with new, more efficient, HTEs at strategic locations. These HTEs are capable of loading a minimum of 50 rail cars within a 12-hour period, while the older, smaller country elevators typically were capable of loading less than 20 rail cars in the same time period. Between August 1, 1997 and the completion of the Merger on November 1, 2001, the Company closed 351 country elevators (about 79% of the elevators that it operated in 1997) and built 36 new HTEs, thereby reducing the total number of its elevators from 469 in 1997 to 154. In addition, during this period, the Company upgraded to HTEs certain of its existing conventional country grain elevators. The Company invested approximately $367 million in its infrastructure renewal program between 1997 and 2001. The Company has substantially completed its infrastructure renewal capital expenditure program.

The following table sets out information regarding the Company's current system of country elevators:

	High Throughput Elevators(1)		Conventional Elevators	
Province	**Number**	**Storage Capacity(2)**	**Number**	**Storage Capacity(2)**
Manitoba(3)	16	242,360	33	173,880
Saskatchewan	12	200,980	21	122,120
Alberta(3)	23	409,600	47	288,420
British Columbia	—	—	2	22,300
Total	51	852,940	103	606,720

(1) Country elevators capable of loading 50 or more rail cars in a 12-hour period.

(2) Metric tonnes.

(3) The Commissioner of Competition shortly will apply to the Competition Tribunal for a consent order requiring the Company to divest five or six country elevators in the Edmonton and Peace River regions of Alberta and one country elevator in the Dauphin region of Manitoba. See ''Merger and Related Transactions – Description of the Merger Transaction''.

Unlike a number of its competitors, the Company has a large, geographically-dispersed and strategically located country elevator network. The Company believes that the size and scope of its country elevator network positions it to achieve the throughput volumes required to permit the Company to be a low cost provider of grain handling services. In addition to competing for grain handling volumes on the basis of price and service, the Company secures additional grain handling volumes, in some cases, by contracting with farmers early in the crop year, or even before planting. In some cases, the Company also pays trucking premiums to farmers who transport their grains longer distances to the Company's country grain elevators. During the 2000/2001 crop year, the Company handled 12.7 million metric tonnes of grain, although grain handling volumes are expected to be lower in the 2001/2002 crop year as a result of poor weather in the summer of 2001 in southern portions of Saskatchewan and Alberta. See ''Liquidity, Capital Resources and Outlook – Outlook''. The Company believes that the recent reforms in respect of the tendering and rail car allocation process for Board Grains should favour low cost grain handling service providers that have the capacity and geographic scope to satisfy the CWB's requirements.

Grain handling begins with the transportation of the grain from the farm to the country elevator. Transportation of grain to the country elevator by truck is arranged either by the farmer or the Company. At the country elevator, the grain is weighed, graded and dockage (an estimate of foreign material, including weeds, seeds, broken kernels and other grains) is assessed. Agricore United has Handling Agreements with the CWB entitling it to handle Board Grains for which it receives tariffs set by the Company (and notice of which is provided to the Grain Commission). In the case of Non-Board Grains, the farmer receives payment from Agricore United equal to the market price at export position for the particular grain and grade delivered, as determined by the Company, less certain charges. Generally, charges are the same as those levied on Board Grains, but also may include a ''basis'' deduction to account for differences between the cash and futures market prices for a commodity and imputed carrying charges (such as interest) which are payable to the Company.

The proportion of the Company's total grain handling volume represented by Board Grains has declined in recent years, reducing the Company's dependency on the CWB. During the 2000/2001 crop year, 61% of the grains handled by Agricore United were Board Grains, compared with 69% in the 1996/1997 crop year.

Grain may be stored in the elevator for some time before it is shipped to a domestic, U.S. or Mexican customer, such as a flour mill, feed mill or maltster, or to a port terminal. At both the country elevator and the port terminal, blending of the grain can occur. Handling, blending and storage are key factors under the Company's control affecting margins and profitability. Two significant and more variable factors are grade gains and weight gains. Grade gains are obtained by the Company from blending grains which are below the primary standard with grains that are above the primary standards so as to allow the aggregated mix to meet the minimum standards. The Company also occasionally obtains ''weight gains'' to the extent that, during handling, actual losses of grain through shrinkage are lower than the tolerance allowed by the Grain Commission. The Company may also recover or lose grains through the cleaning process.

It is customary for country elevators to undergo a periodic ''cut-off'' to reconcile actual inventory by grade with accounting inventory. To the degree that weights and grades at the time of the reconciliation exceed the weights and grades at the time of purchase, the Company realizes additional revenues. The general level of grain prices and the price differences between grades can also affect the Company's revenues.

Port Terminal Services

The Company's port terminal services business links its country elevators with export customers, providing processing and logistics services to ensure timely delivery of grain to fulfill the CWB's, the Company's and/or other exporters' sales commitments. The following table sets out information regarding the port terminal operations in which the Company has an interest:

Port Terminal Location	**Storage Capacity**[1]	**Fiscal 2001 Receipts**[1]	**% Ownership**
Vancouver, B.C.[2][3]	102,070	1,797,000	100%
Vancouver, B.C. (Cascadia)	282,830	4,683,000	50%[4]
Vancouver, B.C. (Pacific Elevators)[2]	199,150	1,616,000	70%[5]
Prince Rupert, B.C.	209,510	2,228,000	44.9%[6]
Thunder Bay, Ontario (Terminal A)[3][7][8]	231,030	1,152,000	100%
Thunder Bay, Ontario (Terminal M)[3][8][9]	91,010	463,000	100%
Thunder Bay, Ontario (Terminal Pool #1)[8]	167,000	887,000	100%

(1) Metric tonnes.
(2) The Commissioner of Competition will shortly apply to the Competition Tribunal for an order requiring the divestiture of a port terminal in Vancouver. See ''Merger and Related Transactions – Description of the Merger Transaction''.
(3) Port terminal registered for ISO 9001:2000 and HACCP (Hazardous Analysis Critical Control Point) quality standards for port terminal handling of grains, oilseeds and special crops.
(4) The remaining 50% interest is held by Cargill Limited.
(5) The remaining 30% interest is held by Saskatchewan Wheat Pool.
(6) The remaining 55.1% interest is held by Saskatchewan Wheat Pool (31.3%), Cargill Limited (12.9%) and James Richardson & Sons Ltd. (10.9%).
(7) This port terminal handles primarily Board Grains.
(8) The Company intends to close one port terminal in Thunder Bay, Ontario, while continuing to operate its other two Thunder Bay, Ontario port terminals, to increase efficiency.
(9) This port terminal handles Non-Board Grains only.

The Company has the Western Canadian grain industry's largest and most efficient grain handling capacity at the Port of Vancouver. The Company currently has more than sufficient capacity at the Port of Vancouver to handle all of the grains and special crops it sources in Western Canada that are to be shipped through the Port of Vancouver.

Grain transported by rail from country elevators to a port terminal is unloaded, cleaned to export standards (if necessary) and stored, prior to being loaded onto ships. The Grain Commission officially weighs and inspects all grain that is unloaded at a terminal elevator and issues a ''Terminal Outturn'' which assesses weighing, inspection, and cleaning charges. Dockage is removed during the cleaning process and cleaning charges are earned at this time. The material removed during the handling process is passed through a reclamation system to produce by-products. Some by-products (feed screenings and mixed feed oats) are sold ''as is'', and the remaining refuse screenings are pelletized and sold domestically and/or internationally as feed inputs. Revenues from the sale of by-products can vary substantially depending on the underlying values of grain commodities with which they compete.

Clean, graded grain is stored until it is required to be loaded onto a ship or rail car. During the shipping process, Grain Commission officials weigh and inspect the shipment and, at completion, provide a final certificate to the customer. The Company collects elevation charges from the shipper of the grain (CWB for Board Grains, other exporters for Non-Board Grains) when the ship or rail car has been loaded.

As is the case with country elevators, port terminals have the potential to blend and mix different grades of grain to enhance the overall quality of grain and its value. The reconciliation of actual inventories to reported stocks occurs at least once every 30 months (as required by Grain Commission regulations).

Grain Merchandising

The Company's grain merchandising business focusses on the development of domestic and export markets for grains handled by the Company. The first aspect of this business is primarily a trading function consisting of establishing relationships with farmers and end-use customers. The Company's domestic and international sales force works with end-use customers to co-ordinate the delivery of the particular type and grade of grain required by the end-use customer at a particular time. The Company has established relationships with numerous end-use customers, both domestically and internationally, including ADM and Marubeni Corporation in Japan, which are significant shareholders of the Company.

The second aspect of grain merchandising is logistics. The Company's logistics capabilities permit it to utilize its network of country elevators and port terminals to efficiently meet end-use customers' needs. The Company co-ordinates timely transportation and delivery of required grains to the Company's strategically-located HTEs. The Company's logistics ability and country elevator capacity allows it to load many rail cars rapidly and move grain quickly to the port terminals in which the Company has an interest. By shipping the majority of its grains in multi-car blocks, the Company is able to take advantage of significantly reduced freight rates consistent with shipping greater volumes, ensuring that the Company is able to fulfil specific market needs and providing customized ''just-in-time'' service to end-use customers.

The final aspect of grain merchandising is risk management in respect of the Company's Non-Board Grain inventories, which generally is accomplished by hedging in commodities futures markets and managing the Company's inventory positions. See ''– Risk Management – Inventories''.

Agricore United is also a marketer of beans and special crops. This business had revenues of over $100 million for the year ended July 31, 2001. This business handles pinto, pink, great northern, small red and black beans, and operates processing plants at Taber and Bow Island, Alberta. As well, the Company operates bean and lentil processing facilities at Carmen, Manitoba and Ray, North Dakota together with marketing offices at Carmen, Manitoba; Minneapolis, Minnesota; and Lewiston, Idaho. Agricore United's bean business offers flexible contracting options, agronomic advice and field support for over 600 contract bean growers across Western Canada. The Company's bean and special crops business also provides producers with a source for marketing other special crops, principally edible and feed peas, chick peas, mustard, specialty oats, lentils, canary seed, sunflowers and safflowers.

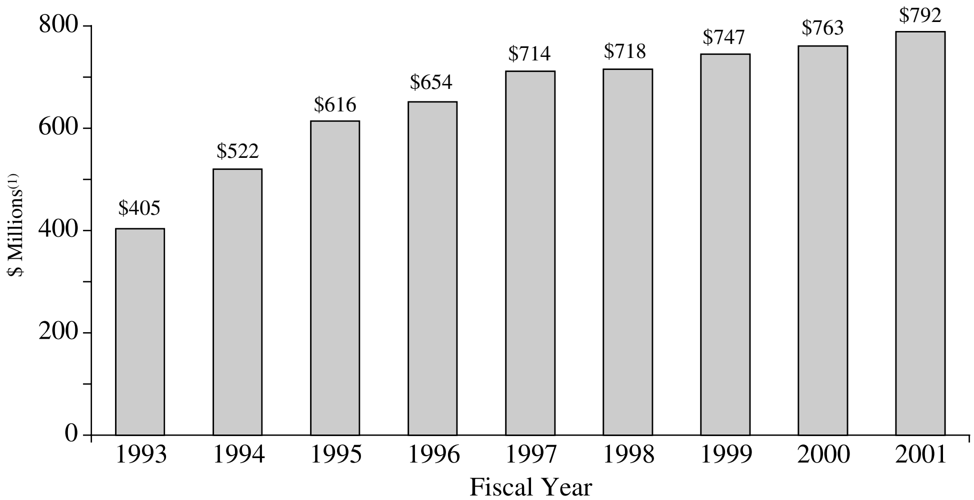
The Company's grain handling and merchandising earnings fluctuate in relation to the amount of grain handled and the margin earned on merchandising Non-Board Grains. The Company's profitability is impacted more directly by the volume of grains handled because approximately 60% of the grains handled are Board Grains on which set tariffs are earned.

Crop Production Services

Agricore United is the largest retailer of crop inputs in Western Canada with sales of over $750 million in the 2001 fiscal year from over 200 locations.

Pro forma crop production services revenue and EBIT of the Company for the year ended July 31, 2001 were $792 million and $71.3 million, respectively. The Company's crop production services business typically provides higher margins than its grain handling and merchandising business.

The Company's crop production services business provides farmers with fertilizers, crop protection products, seed, agronomic services and other crop production products through the Company's network of country elevators and warehouse facilities and, in the case of seed, an expanding independent Proven Seed™ dealer network. The Company's crop input sales have remained strong, even through recent difficult years for the Western Canadian agricultural industry, as shown by the following graph:



(1) Pro forma, giving effect to the Merger as if it had occurred on August 1, 1992.

The Company's crop production services include providing extensive agronomic information enabling customers to make informed crop input decisions and arranging for financing for customers purchasing crop inputs from the Company. See ''– Complementary Businesses''.

Fertilizers

Agricore United is a major distributer of fertilizers in Western Canada. The Company also has an investment in fertilizer manufacturing, and access to a stable source of fertilizer supply, through its minority interest in CF Industries Ltd. (''CFL'').

The Company owns two-thirds of the shares of Western Co-Operative Fertilizer Limited (''WCFL''), a co-operative that, in turn, owns a 34% interest in CFL. CFL manufactures fertilizers at a world-scale urea and ammonia plant in Medicine Hat, Alberta. WCFL has the right to purchase nitrogen fertilizers from CFL at cost and sells nitrogen and other fertilizers to Agricore and others on a wholesale basis. WCFL is a co-operative, and its income is allocated to its members based on patronage.

The Company distributes fertilizer throughout Western Canada through its network of country elevators and farm service centres. Fertilizer is a commodity that is sold on an unbranded basis. Typically, fertilizer is purchased in standard or ''straight'' grades and blended by WCFL or the distribution facility to meet the various specific nutrient requirements of the customer. These requirements vary depending on a number of factors, including past fertilization practices, natural soil fertility and crop rotations. Requirements are determined through soil sampling and analysis. Competitive prices and the ability to secure a stable source of supply are key competitive factors. The Company minimizes its overhead costs by selling fertilizer product through its existing country elevator and farm service centre network and is able to utilize WCFL as a stable, cost-effective source of supply. The Western Canadian retail market for fertilizer, which has remained relatively constant over the last several years, amounts to approximately 3.9 million metric tonnes annually.

Crop Protection Products

Agricore United is a significant distributor of crop protection products, such as pesticides and herbicides, in Western Canada. The Company offers over 250 crop protection products including glyphosate, wild oat control, broad leaf control, fungicides and seed treatment. The Company owns or leases five chemical distribution warehouses across Western Canada and retails chemicals through its network of country elevators and farm service centres. While most crop protection products are sold directly to farmers through the Company's retail distribution network, the Company in some cases also provides custom application services using equipment owned or leased by the Company. Agricore United complies with the environmental protection standards of the Agricultural Warehousing Standards Association (the ''AWSA'') through its network of AWSA compliant warehouses at most of its country elevators and farm service centres, representing about 642,000 square feet of storage in the aggregate.

While older products continue to be replaced with improved ones, the overall size of the $1 billion market for crop protection products in Western Canada has remained relatively constant over the last several years. The Company estimates that its share of this market is approximately 33%. The major grain handling companies and independent retailers compete in this segment. While this industry segment has historically been fragmented, in recent years there has been considerable consolidation as a result of AWSA and similar warehousing standards for the storage of crop protection products.

Seed

Agricore United's varietal seed business is growing rapidly. Growth in this business has been fuelled by a combination of better seed varieties resulting from scientific advances, legislation granting proprietary rights to breeders that develop new seed varieties, and educational and marketing programs, increasing awareness and demand for varietal seed. Agricore United is one of the largest distributors of seeds in Western Canada. The Company has established a leading brand name, Proven Seed, under which it produces and markets 56 of the Company's 103 proprietary seed varieties, in addition to 37 publicly-available seed varieties and 54 varieties of publicly-available forage seed. The development of new seed products sold under the Proven Seed label has provided the Company with a distinct product. While most of the Company's seed sales are in Western Canada, the Company also distributes some seed internationally, including in the United States, western and eastern Europe, Korea, Japan and Argentina.

Agricore United also is involved in varietal seed development, primarily involving canola seed and a flaxseed variety named Linola, through several strategic alliances or other arrangements with leading breeding companies, including its exclusive strategic alliance with Pioneer Hi-Bred International Inc., and the University of Alberta under its Cooperative Crop Development Group Program. The Company is engaged in both basic research and commercial trials and development of new seed varieties. The Company also operates a research farm in southern Manitoba where new crop varieties, developed for Western Canada's growing conditions, are selected and tested.

The market for varietal seed varies considerably with the crop grown. In growing certain commodities, such as wheat, it is common for farmers to retain a portion of their crop to use as seed for the next growing season. This retained or ''commercial'' seed is generally less pure than ''certified'' seed, which is bred to produce higher yields and other desirable qualities. Due to purity degeneration, wheat farmers should invest in certified seed every three to four years. For other crops, such as canola, farmers tend to purchase certified seed more frequently, most doing so every year. The emergence of hybrid seed varieties is expected to deliver improved yields and other traits but, due to rapid purity degeneration, will require producers to purchase certified hybrid seed every year.

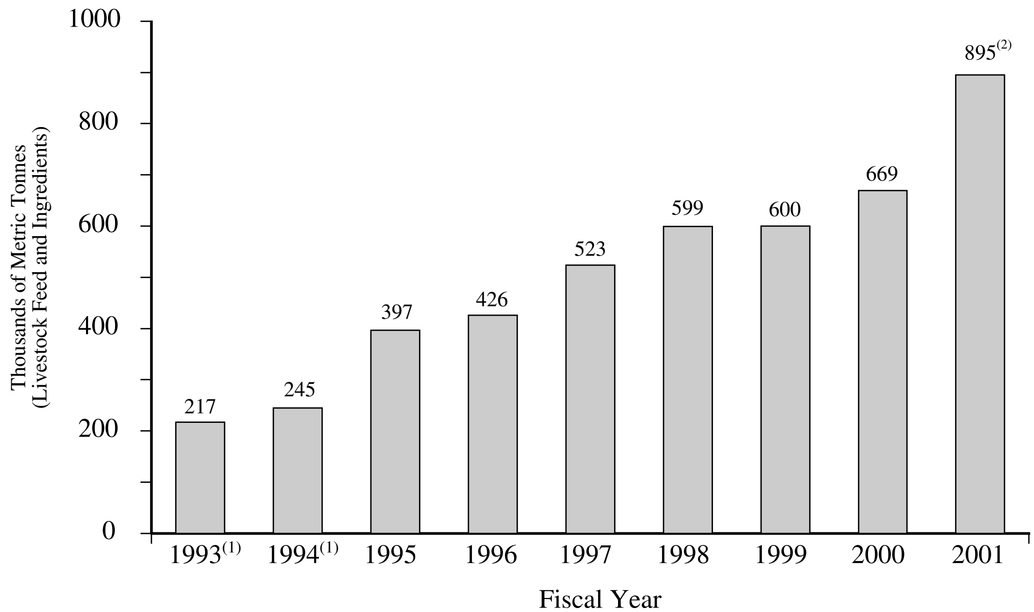
The *Plant Breeders Rights Act* (Canada) (the ''PBA''), enacted in 1990, allows a breeder of a new plant variety, upon registration, to receive an exclusive right for 18 years to multiply and sell seed of that variety. Such registration affords the breeding company protection from unauthorized sales of its product. The Company is the registered rights holder for certain of its proprietary seeds in respect of which it participated in basic research and is exclusive licensee of such rights for other of its proprietary seed varieties. As a result of the PBA, as well as advances made possible through biotechnology, seed breeders have devoted considerable resources to certified seed development. The market for certified seed is also expanding due to marketing and educational programs aimed at demonstrating to farmers that increased quality of grains from the use of certified seed is worth the added expense.

Livestock Services

Livestock services is Agricore United's fastest growing business segment. The Company is engaged in the livestock industry through its wholly-owned subsidiaries Unifeed Limited and Hart Feeds Limited (''Hart Feeds''), which manufacture and market livestock feed products, and its complementary Unifinance secured financing programs and Unipork commercial hog program.

Pro forma livestock services revenue and EBIT of the Company (including income from the Company's investment in Puratone) for the year ended July 31, 2001 were $195.4 million and $11.4 million, respectively. The Company's livestock services business typically provides higher margins than its grain handling and merchandising business.

Since 1993, when the Company embarked upon a major restructuring of its livestock services business operations, its livestock feed product production has seen significant consistent growth, as illustrated by the following graph:



(1) Livestock feed only. Data for livestock ingredient production is not available for fiscal 1993 and fiscal 1994.

(2) Pro forma, giving effect to the purchase of Unifeed Chilliwack (formerly Pro Form Feeds, a division of Agro Pacific Industries Ltd.) on February 9, 2001 as if it had occured on August 1, 2000.

This increase is attributable, in part, to the acquisition of Hart Feeds in 1995, the acquisition of Unifeed Chilliwack (formerly Pro Form Feeds, a division of Agro Pacific Industries Ltd.) in 2001, the completion of a replacement feed mill in Olds, Alberta in 2000 and the expansion and modernization of the Company's remaining feed mills.

The Company produces complete feeds and supplements at seven feed mills, two pre-mix manufacturing facilities and one specialized protein blending facility. The following table sets out information regarding the Company's feed mills, pre-mix facilities and specialized protein blending facility:

Name and Location	**Current Volume**(1)	**Nominal Capacity**(1)
Unifeed Chilliwack, British Columbia(2)	65,000	160,000
Unifeed Armstrong, British Columbia	70,000	60,000
Unifeed Edmonton, Alberta(3)	93,000	90,000
Unifeed Edmonton, Alberta(4)	16,000	15,000
Unifeed Olds, Alberta	80,000	200,000
Unifeed Lethbridge, Alberta	360,000(5)	250,000
Agricore Camrose, Alberta(6)	19,600	30,000
Unifeed Somerset, Manitoba(4)	4,000	4,000
Unifeed Carman, Manitoba(7)	42,000	80,000
Hart Feeds, Manitoba	70,000	90,000

(1) Metric tonnes. For the year ended July 31, 2001.

(2) Feed mill producing fish feed, in addition to livestock feed. Current volume shown is for the six-month period from February 2001 to July 31, 2001. The Company acquired this facility in February 2001.

(3) To be replaced by a new mill expected to have a nominal capacity of 180,000 metric tonnes scheduled to be completed in 2003.

(4) Pre-mix facility.

(5) Includes grain and feed ingredients brokered on behalf of customers.

(6) Specialized protein blending facility that cleans, blends and mills peas into a blend of one-third canola and two-thirds pea meal that is marketed to the hog industry as Peacan meal.

(7) Currently undergoing expansion.

The Company's livestock feed products generally are delivered in bulk to farmers by truck directly from the feed mill or pre-mix facility. In addition, the Company distributes smaller quantities of feed products through Company-owned retail outlets at most of the Company's feed mills and pre-mix facilities, as well as through a dealer network of approximately 50 outlets and two Company-owned retail stores.

The Company sells its livestock feed products and derives additional revenue from interest and financing fees in connection with its Unifinance secured financing programs. Under these programs, the Company provides secured financing to credit-worthy livestock operations for livestock purchases, capital investments and credit consolidation. Borrowers under the Unifinance secured financing programs are required to purchase their livestock feed product requirements from the Company. As at November 30, 2001, the Company had approximately $25 million invested in such secured financing arrangements.

The Company also sells its livestock feed products and derives additional revenue from brokering hogs under its Unipork commercial hog program. Under this program, the Company helps operators of sow farms (which raise pigs to 18 or 50 pounds), nursery farms (which grow pigs from 18 to 50 pounds) and hog finisher farms (which grow pigs from 50 pounds to commercial weights) to minimize the variation in their incomes from year to year, by providing such operators with a floor price for their products under contracts with a minimum six-year term. Any amounts paid in excess of prevailing market prices to a particular operator as a result of the floor price mechanism is required to be repaid to the Company by the operator over time. The Company also is paid a portion of any amount the producer secures for such products in excess of a ceiling price stipulated in the contract. These contracts are automatically extended, if necessary, until all amounts paid to the operator as a result of the floor price mechanism are repaid to the Company. Producers participating in the Company's Unipork commercial hog program are required to purchase their livestock feed product requirements from the Company. During the year ended July 31, 2001, approximately 400,000 hogs were raised, and approximately 125,000 metric tonnes of feed products were sold, under this program.

In addition, the Company has a 32% ownership interest in The Puratone Corporation (''Puratone''), a company engaged primarily in commercial hog production and complete feed production. Puratone produces over 400,000 commercial hogs each year for which it manufactures 225,000 metric tonnes of feed in four locations. Puratone purchases some of the inputs required for its feed mill operations from the Company on commercial terms.

Complementary Businesses

Agricore United also has interests in a number of complementary businesses related to the Western Canadian agricultural industry, including agri-food processing, farm business communications and financial services.

Agri-Food Processing

The Company's agri-food processing business, either directly or indirectly through partnerships, joint ventures or investee companies, is involved in the manufacturing and marketing of value-added products derived from farm commodities. The Company's agri-food business participates in the manufacturing and marketing of value-added products derived from farm commodities, principally through the Company's 16.6% in CanAmera Foods Limited Partnership (''CanAmera Foods''), the leading oilseed processing and packaging company in Canada. CanAmera Foods has approximately 50% of the oilseed crushing capacity in Canada with plants located in Altona and Harrowby, Manitoba, Nipawin, Saskatchewan and Fort Saskatchewan, Alberta. CanAmera Foods also has oilseed refinery plants in Wainwright, Alberta, Toronto and Hamilton, Ontario and Montreal, Quebec, and packaging plants in Edmonton, Alberta and Oakville, Ontario.

The Company also owns Demeter (1993) Inc., a leading North American mustard contractor, processor and marketer with mustard seed processing facilities in Warner, Alberta, Melville, Saskatchewan and Minneapolis, Minnesota that clean and process mustard purchased from a network of growers across the Great Plains of North America for sale to consumers of yellow, brown and oriental mustards around the world. The Company owns a specialized mustard seed inland terminal in Minneapolis, Minnesota with a storage capacity of 15,000 metric tonnes. The Company also owns 50% of Alberta Industrial Mustard Company Limited, which produces a processed mustard product.

Pro forma revenue and EBIT of the Company from its agri-food processing investments for the year ended July 31, 2001 were approximately $178.7 and $4.7 million, respectively.

Farm Business Communications

The Company's farm business communications business consists of the following eight farm business periodicals:

- *Country Guide*
- *Canola Guide*
- *Canadian Cattlemen*
- *Wheat, Oats and Barley*
- *Grainews*
- *Disease, Weeds and Insects*
- *Alberta Crops and Beef*
- *The Manitoba Co-operator*

These periodicals include farm business, technical, production and instructional editorial material, providing farmers with practical knowledge and information. The Company's farm business periodicals have an aggregate circulation of approximately 230,000 and provide the Company with an extensive data base regarding, and regular contact with, Western Canadian farmers.

The farm business communications business provides the Company with two revenue streams: advertising and subscriptions. Pro forma farm business communications revenue and EBIT of the Company for the year ended July 31, 2001 were $12.0 million and $2.0 million, respectively.

UGG Financial

In February 2001, the Company entered into an agreement with The Bank of Nova Scotia for the provision by the bank of loans and financial services to qualifying customers of the Company's crop production services business under the brand name UGG Financial. Under this program, the bank provides loans, and financial and credit adjudication services to the Company's customers. The Company manages the credit application process, provides customer service and other administrative support through its existing credit department.

UGG Financial offers customers with qualifying credit ratings extended repayment dates, which provides producers with more payment flexibility than was previously the case, enabling producers to find the best grain delivery opportunities. As a result, eligible customers benefit from financial products that better fit their cash flow requirements and a broader range of financing options than were previously offered by the Company.

Under this program, the Company has significantly reduced the amount of credit or credit support it provides to farmers in connection with its crop production services business. As a result, the Company benefits from a reduced need to borrow in order to finance its customers' purchases and the resulting lower financing costs. Sales financed by UGG Financial are immediately funded and essentially represent ''cash sales'' to the Company. In place of net interest revenue earned by the Company on customer credit, Agricore United earns an agency fee for the customer service and administrative support services it provides.

Competition

The agricultural businesses that the Company serves are global and competitive, with commodity prices determined by global supply and demand and other factors beyond the Company's control. Although one of Canada's leading agri-businesses, the Company is a relatively small player in the global agricultural business.

The Western Canadian agricultural business is also highly competitive. However, with respect to the Company's three principal business activities, it is Western Canada's largest grain handling and merchandising company by volume, Western Canada's largest crop production services provider and one of Western Canada's largest manufacturers and suppliers of livestock feed products.

The Company estimates that its grain handling and merchandising business accounts for approximately 38% of the Western Canadian grain handling industry. The Company's grain handling and merchandising business has numerous competitors including Saskatchewan Wheat Pool, James Richardson International (Pioneer Grain), Cargill Limited, N.M. Patterson & Sons, Parrish & Heimbecker, Louis Dreyfus, ConAgra Foods, Inc., ADM and other, smaller companies. Competition in grain handling continues to grow as a result of the expansion of historical participants and the addition of several new entrants, such as Louis Dreyfus. Saskatchewan Wheat Pool has expanded into Manitoba and Alberta, Pioneer Grain, Cargill Limited, ConAgra Foods, Inc., Louis Dreyfus and N.M. Patterson & Sons each have strengthened their position in Western Canada, and several smaller competitors and new farmer-owned inland terminals have been established, principally in Saskatchewan. However, unlike a number of the Company's competitors, the Company's elevators are geographically dispersed across Western Canada broadening its access to the market, the variety of grains it can source and minimizing its risk from poor weather in particular regions. The Company believes the principal factors on which its grain handling and merchandising business competes are price and service. The Company believes that it competes favourably on these factors. The recent introduction of a grain tendering process by the CWB and the revisions to the rail car allocation policy are also likely to enhance the competitive environment. See ''Western Canadian Grain Agricultural Industry – Western Canadian Grain Handling Indusry – Recent Reforms''.

The Company's crop production services business competes against other grain handling companies, international seed companies and numerous independent retailers in supplying fertilizer, crop protection products and seed to farmers. The development of a variety of distinctive new seed products, sold under the Proven Seed brand, combined with attractive contracting and financing programs and crop management services offered to farmer-customers, differentiate the products and services provided by the Company.

The Company's livestock services business competes with public and private grain and feed companies and independent retailers, including the other five major firms operating in more than one province in Western Canada, which are: Cargill Limited (Nutrina Feeds), Federated Co-operatives Limited, Maple Leaf Foods Inc. (Landmark Feeds), Masterfeeds and Ridley Canada Limited (Feed Rite). Competition is strong, and there is ongoing consolidation of the industry through mergers, acquisitions and mill shutdowns.

Employees

At November 1, 2001, the Company employed 3,607 full-time equivalent staff. The number of the Company's employees employed in each of its businesses is as follows: Grain Handling and Merchandising – 1,635; Crop Production Services – 1,259; and Livestock Services – 324.

Approximately 33% of the Company's employees are unionized. The following table sets out information regarding the Company's principal unionized labour group units as at November 1, 2001:

Employee Group	Location	Employees	Union	Agreement Expiry Date
port terminal services	Vancouver, B.C	321(1)	Grain Workers Union	December 31, 2000
port terminal services	Thunder Bay, Ontario	108	United Steelworkers of America	January 31, 2003
country elevator and crop production services(2)	Manitoba, Alberta and British Columbia	751	Grain Services Union	December 31, 2001
feed mill	Armstrong, B.C.	16	International Union of Operating Engineers	November 19, 2001
seed plant	Edmonton, Alberta	8	United Food and Commercial Workers	March 31, 2003
administrative	Vancouver, B.C.	8	Grain Workers Union	February 28, 2002

(1) Includes 100 employees employed by Pacific Elevators Limited and 135 employees employed by Cascadia Terminal. The Company owns 70% of Pacific Elevators Limited and 50% of Cascadia Terminal.

(2) Country elevator, crop production and repair and maintenance employees of Agricore in Manitoba and full-time elevator employees of Agricore in Alberta and northeastern British Columbia.

In 1999, Agricore experienced a five-week work stoppage involving its country elevator, crop production and repair and maintenance employees in Manitoba, and full-time country elevator employees in Alberta and northeastern British Columbia. The collective agreement signed after this work stoppage expires on December 31, 2001. The Company has commenced preliminary discussions with the union representing these employees regarding the renewal of this agreement. The country elevator and crop production services employees of UGG are not unionized, although the Grain Services Union recently applied to be certified as bargaining agent for these employees. The Company has commenced discussions with the union and the Canada Industrial Labour Relations Board regarding this application. The collective agreement involving the port terminal services employees at the Port of Vancouver expired on December 31, 2000, but these employees are working under the terms of the expired collective agreement while negotiations for a new collective agreement continue. The Company has not experienced any recent work stoppages involving its terminal services employees. See ''Risk Factors''. Generally, the Company believes that it has a good working relationship with both its unionized and non-unionized employees.

Risk Management

In the conduct of its business, the Company faces certain risks, including risks related to variations in grain handling volumes, the risk of adverse movements in the price of Company-owned grain inventories, environmental and health and safety risks, foreign currency positions (primarily denominated in U.S. dollars), as well as the risk of catastrophic losses on inventories and facilities from fire and other perils. See ''Risk Factors''. The Company, under the direction of the Risk Management Committee of the board of directors of the Company, manages its exposure to risk so that the Company's financial position is protected.

Integrated Risk Insurance

During the 2000 fiscal year, the Company entered into an integrated insurance program that covers the business and assets of UGG only. Agricore's business and assets are currently insured under more traditional arrangements through a subscription of underwriters arranged through a subsidiary of Agricore. Both the Company's integrated risk insurance and Agricore's insurance coverage include property, liability, marine cargo, charterers' liability and environmental liability insurance. The Company also carries insurance coverage for its directors and officers and former directors and officers of Agricore. Coverage is limited to items not included under the general liability package but does include additional environmental liability coverage. Other insurance agreements include a variety of fidelity and performance bonds. Also covered are certain professional errors and omissions and other specific insurance to address identified risks or to meet statutory and regulatory requirements.

The Company's integrated risk insurance, relating to the business of UGG only, incorporates a significant amount of protection against revenue losses due to a specified decrease in grain handling volumes. The Company is permitted to make a claim for its grain handling volume-related losses if industry grain shipment volumes fall below the five-year average of industry grain shipment volumes. There is an $8 million deductible in respect of all losses in any year, including both grain handling volume-related losses and any other losses covered by the policy, including claims for property losses. Company claims related to reduced grain handling volume in respect of UGG's business for the 2001/2002 crop year are limited to a maximum of $7.5 million. The Company has notified the insurer providing its integrated risk insurance that the Company intends to make a claim in respect of grain handling volume-related losses for the 2001/2002 crop year. See ''Liquidity, Capital Resources and Outlook – Outlook''. Agricore's grain handling volumes are not currently insured. The Company is currently engaged in negotiations with its integrated risk insurer to extend and expand its integrated risk insurance coverage to include Agricore's business and assets.

Inventories

Approximately 60% of the grain handled by the Company is Board Grains. Since the Initial Price paid by the Company to farmers on behalf of the CWB is reimbursed in full together with the actual financing charges incurred, the resulting Board Grain inventories are not generally subject to price fluctuation risk to the Company.

The Company is subject to the risk that Board Grains may be handled by the Company in a manner that results in a loss of grade or that the price relationship between or within grades may change mid-year. In such circumstances, the Company may revise the grades of grain recorded as their inventory by the CWB prior to any price change between grades. These adjusted grades then become the basis for the calculation for the price change. The CWB may make price changes between grades within 45 days of the Company report. This limits risk to activity for the 45 days. Other than in these circumstances, the Company is fully protected by the CWB for changes in the general level of prices for Board Grains.

Where practicable, purchases of Non-Board Grains for the Company's own account are hedged on regulated futures markets utilizing futures contracts. The Company has memberships on the Winnipeg Commodity Exchange, where futures contracts are traded in certain Non-Board Grains. The Company also utilizes other regulated futures markets, such as the Chicago Board of Trade, from time to time as required and utilizes the services of members of those exchanges for a fee.

It is impossible to be completely hedged against Non-Board Grain price movements because of the size of futures contracts and time constraints. The Company maintains an internal policy imposing strict limits on the amount of unhedged Non-Board Grain inventory owned by the Company at any given time. As a result, the degree to which the Company is at risk for its own unhedged Non-Board Grains at any time is relatively small and poses no material risk to the Company.

Certain commodities traded for the Company's account, such as mustard and forage crops, cannot be hedged on a futures market, as no regulated markets exist for these commodities. Wherever practicable, margins between purchase price and sales price are locked in by ''back-to-back'' buying and selling.

Environmental, Health and Safety

The Company also faces environmental, health and safety risks due to the handling and storage of hazardous substances such as fertilizers and crop protection products (*e.g.,* pesticides and herbicides). The Company's environmental and occupational health and safety management systems are designed to identify and control such risks in all of the Company's business operations and ensure immediate action is taken to mitigate the extent of any environmental, health or safety impacts from such operations. A key aspect of these systems is the performance of annual environmental and occupational health and safety audits. The Company's crop protection product warehouses have also been audited and conform to the AWSA's standards for crop protection product warehouses.

Foreign Exchange Risks

A sizable portion of the sales of the Company's own inventories of Non-Board Grains and terminal by-products (screenings and manufactured pellets) are sold into export markets, and such transactions are denominated primarily in U.S. dollars. The Company hedges substantially all foreign currency transactions by using options, futures currency contracts or forward exchange contracts.

Environmental Regulation

The Company is subject to extensive federal, provincial and municipal environmental, health and safety laws and regulations relating to air emissions (*e.g.*, grain dust), wastewater discharges, the use, handling, storage and disposal of hazardous substances (*e.g*., herbicides, pesticides, fertilizers), and the remediation of contamination. The Company believes that its operations are currently in substantial compliance with all such material laws and regulations and has environmental and occupational health and safety management systems to facilitate such compliance. A key aspect of these systems is the performance of annual environmental and occupational health and safety audits. See ''Risk Factors – Environmental Risks''.

The Company's current and former operations are also subject to environmental remediation laws that can impose liability for the cost of the remediation of contamination in connection with such operations. Other than with respect to WCFL discussed below, the Company is not aware of any environmental liability that is expected to have a material adverse effect on its business, results of operation or financial condition.

The Company's majority-owned subsidiary WCFL is responsible for the decommissioning, remediation and reclamation costs of two of WCFL's former fertilizer production facilities in Calgary and Medicine Hat, Alberta. In 1995, based on an independent environmental consultant's report, WCFL reported a $61.5 million charge against earnings for estimated decommissioning, remediation and reclamation costs at such facilities. In June 2000, WCFL, with the assistance of independent environmental consultants, developed conceptual reclamation plans for such facilities based on environmental site assessments, site-specific risk data and currently-available technologies. Based on these more detailed plans, WCFL developed an updated cost estimate of a base case of $51 million (which included potential remediation liability associated with a portion of the Calgary site that WCFL leases to Earth Science Extraction Company), resulting in a $10.5 million reduction to the 1995 provision. In October 2001, an independent environmental consultant estimated that WCFL's $51 million cost estimate might be $3 million higher with respect to long-term monitoring costs at the facilities and the remediation of the Earth Sciences Extraction Company leased site, for a total of $54 million. It was the independent environmental consultant's opinion that WCFL's alternate case total that was developed in June 2000 of $70.1 million represented a low probability, conservative outcome. Agricore had previously provided for its proportionate share of WCFL's expected environmental liability. The Company expects to record a further provision of $10 million for other long-term liabilities in connection with the Merger to provide more fully for its proportionate share of this potential liability.

The Company anticipates increased expenditures of both a capital and an expense nature as a result of increasingly stringent environmental, health and safety laws and regulations, as well as increased enforcement of such laws and regulations. Based on existing and proposed environmental, health and safety laws and regulations, the Company does not believe that such increased expenditures will have a material adverse effect on the Company's earnings. See ''Risk Factors – Environmental Risks''. The Risk Management Committee of the board of directors of the Company reviews and monitors the management of the Company's environmental risks.

Information Systems

Prior to the Merger, UGG and Agricore used different computer-based systems. As a result, information systems integration is a key aspect of integrating the businesses of UGG and Agricore. The Company has determined to implement Company-wide information systems similar to the information systems used by UGG, including GrowerLink.

The information systems integration to be completed in connection with the Merger is complex. The Company has adopted an information systems integration plan designed to manage the risk of business disruption and unanticipated expenses. UGG and Agricore generally will maintain their current, familiar, parallel corporate systems until the end of the spring 2002 grain planting season. During the summer of 2002, the Company will train employees affected by the information systems integration, with an August 2002 target date for Company-wide adoption of integrated information technology systems. The Company will arrange to have additional technical personnel available during the implementation period to respond to difficulties quickly and to ensure data integrity. The Company estimates that it will incur one-time expenses of approximately $7.5 million in respect of information technology conversion and related costs, which expenses are included in the Company's estimate of the one-time costs to be incurred in connection with the Merger. See ''Business of the Company – Merger of United Grain Growers Limited and Agricore Cooperative Ltd. – Merger Costs''.

Virtually all systems used in the Company's various operating and administrative functions are computerized. UGG uses a broad base of application software, most of which has been custom written by the Company. Agricore's application software is generally customized third party proprietary software. The vast majority of country elevators and farm service centres are electronically linked to head office 24 hours a day employing a communications network stretching from Thunder Bay to Vancouver. Sales data relating to crop input products are reflected immediately on the Company's centralized data base providing for a high degree of inventory control together with a good awareness of customer needs.

Enhancements to UGG's grain handling application software were recently completed and a release is scheduled for the first quarter of 2002 that will allow for the custom creation of delivery contracts that more closely meet the specific needs of the producer. Using the established communications network, grain inventories will be recorded at the time of delivery and reported to logistics to maximize efficiencies whether shipping by rail or truck.

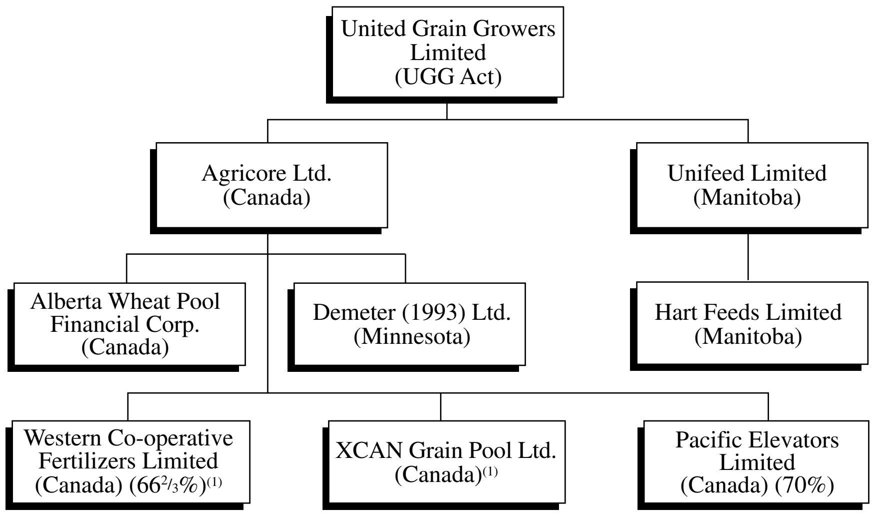
UGG also uses GrowerLink, a web-enabled application developed by UGG and a 2001 Computerworld Honors Award winner, which analyzes customer needs based upon their specialization, their detailed sales history and on-farm grain inventories. This information is matched against specific marketing programs, and territory sales representatives are then advised of individual customers that might benefit from participation in programs appropriate to their needs.

Seasonality

The Company's earnings follow the seasonal activity pattern of Western Canadian grain production. Activity peaks in the spring as new crops are sown and in the fall as mature crops are harvested. The peak period for the sales of crop input products is May to July, corresponding with the start of the growing season, followed by an increased level of crop protection product sales in the late fall. Livestock feed product sales are relatively constant throughout the year. The sales patterns of the Company's grain handling and crop production services businesses have a significant effect on the Company's quarterly results of operations and generally result in lower earnings in the first and second quarters of the fiscal year and significantly higher earnings in the last quarter of the fiscal year.

Subsidiaries

The following chart identifies the principal subsidiaries through which the Company conducts its business operations and the jurisdiction of incorporation of each company. All subsidiaries shown are directly or indirectly wholly-owned, unless otherwise indicated.



(1) Co-operative existing under the *Canada Co-operatives Act*.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table should be read in conjunction with the consolidated financial statements of the Company, the pro forma financial statements and other information (including the discussion under ''Liquidity, Capital Resources and Outlook'') in this prospectus and the management's discussion and analysis of financial condition and results of operations of the Company incorporated by reference. The summary selected historical financial information is derived from the consolidated financial statements of UGG and Agricore included in this prospectus. The summary selected pro forma financial information as at and for the year ended July 31, 2001 is derived from the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statement of operations of the Company included in this prospectus, which give effect to the Merger as if it had occurred on August 1, 2000.

	Agricore United	United Grain Growers Limited		Agricore Cooperative Ltd.	
	Fiscal Year Ended July 31, 2001 (Pro Forma)	Fiscal Year Ended July 31,		Fiscal Year Ended July 31,	
		2001	2000	2001	2000
	(unaudited)				
	(in thousands, except per share amounts)				
Statement of Operations Data:					
Sales and other operating revenue	$4,971,133	$1,854,934	$1,779,789	$3,151,752	$2,938,729
Gross profit and revenue from services	574,088	222,860	201,666	351,228	330,469
Operating, selling and administrative expenses	412,252	158,088	154,250	252,764	258,743
Depreciation and amortization	83,073	28,138	26,380	61,050	57,694
Interest and securitization expenses	54,913	19,139	17,350	35,774	28,752
Earnings (loss) from operations	23,850	17,495	3,686	1,640	(14,720)
Other income (loss)	113	(699)	1,405	812	5,230
Unusual items(1)	(47,190)	(8,158)	(595)	(39,032)	4,003
Recovery of (provision for) income taxes					
Unusual items(1)	18,722	3,549	587	15,173	—
Earnings before unusual items	(3,586)	(441)	(2,900)	541	6,750
Net earnings (loss)	$ (8,091)	$ 11,746	$ 2,183	$ (20,866)	$ 1,263
EBITDA(2)	$ 161,949	$ 64,073	$ 48,821	$ 99,276	$ 76,956
EBIT(3)	$ 78,876	$ 35,935	$ 22,441	$ 38,226	$ 19,262
Basic earnings (loss) per share(4)	$ (0.25)	$ 0.63	$ 0.06	N/A	N/A

	United Grain Growers Limited		Agricore Cooperative Ltd.	
	Fiscal Year Ended July 31,		Fiscal Year Ended July 31,	
	2001	2000	2001	2000
	(in thousands)			
Statement of Cash Flows Data:				
Cash provided by (used in):				
Cash flow from operations	$ 39,932	$ 28,956	$ 35,464	$ 41,841
Change in non-cash working capital	8,375	(19,832)	25,790	24,245
Financing activities	(26,398)	49,589	(31,229)	45,659
Investing activities	(34,470)	(58,816)	(36,827)	(107,234)
Total change in cash position	$(12,561)	$ (103)	$ (6,802)	$ 4,511

	Agricore United		United Grain Growers Limited		Agricore Cooperative Ltd.	
	As at July 31, 2001		As at July 31,		As at July 31,	
	Pro Forma(5)	As Adjusted(6)	2001	2000	2001	2000
	(unaudited)					
	(in thousands)					
Balance Sheet Data:						
Total assets	$1,762,344	$1,762,344	$603,282	$599,431	$1,250,720	$1,273,449
Short-term debt	$ 476,575	$ 452,744	$ 74,058	$ 80,424	$ 357,249	$ 333,973
Long-term debt	$ 342,741	$ 318,910	$122,387	$136,198	$ 265,622	$ 304,114
Accounts payable and accrued	$ 403,965	$ 403,965	$114,434	$ 96,755	$ 268,505	$ 221,713
Other liabilities	$ 65,671	$ 63,011	$ 58,252	$ 59,781	$ 44,332	$ 35,267
Retained earnings	$ 74,919	$ 74,919	$ 74,919	$ 66,933	$ 87,741	$ 141,416
Shareholders' capital and members' equity	$ 398,473	$ 448,975	$159,232	$159,340	$ 227,271	$ 236,966
Total liabilities and shareholders' capital and members' equity	$1,762,344	$1,762,344	$603,282	$599,431	$1,250,720	$1,273,449

(1) Unusual items include restructuring provisions related to rationalization of country operations (2001 – $54 million; 2000 – $11 million); non-cash gains on partial settlement of defined benefit pension plan obligations (2001 – $6.8 million; 2000 – $10.4 million); and recovery from the wind-up of an affiliate (2000 – $4 million).

(2) EBITDA represents earnings (loss) before interest and securitization expenses, depreciation and amortization expense, unusual items and recovery of (provision for) income taxes.

(3) EBIT represents earnings (loss) before interest and securitization expenses, unusual items and recovery of (provision for) income taxes.

(4) For the purposes of the basic earnings (loss) per share calculations, the weighted average number of Limited Voting Common Shares outstanding were: for the year ended July 31, 2001 (pro forma) – 37,310,000; for the year ended July 31, 2001 – 16,818,000; and for the year ended July 31, 2000 – 16,820,000.

(5) After giving effect to the Merger on the basis of the assumptions set out in the unaudited pro forma consolidated balance sheet included in this prospectus.

(6) As adjusted to give effect to this offering (after deducting the Underwriters' fee and the estimated expenses of this offering) and the use of net proceeds described under ''Use of Proceeds'', assuming that the Underwriters' over-allotment option is not exercised.

LIQUIDITY, CAPITAL RESOURCES AND OUTLOOK

The Company is focussed on managing the Company's balance sheet and ensuring that debt and equity are prudently balanced, and that capital expenditures are considered relative to cash flow prospects and strategic priorities. Since Agricore was more highly leveraged than UGG prior to the Merger, the completion of the Merger on November 1, 2001 increased the Company's financial leverage, as represented by total net debt to net tangible assets.

After giving effect to the Merger, the Company's pro forma financial leverage ratio as at July 31, 2001 was 62%. The Company intends to reduce its level of financial leverage and has established a target financial leverage ratio of 45% to 50%, which it expects to achieve before July 31, 2003. After giving effect to the Merger and the completion of this offering, the Company's pro forma financial leverage ratio as at July 31, 2001 would be 59%.

Agricore United's Debt

In connection with the Merger, the Company obtained new credit facilities (the ''New Credit Facilities'') from three Canadian chartered banks (the ''Bank Lenders''). These New Credit Facilities replaced existing UGG and Agricore credit facilities and consist of the following:

- a $250 million revolving credit facility provided by all three Bank Lenders (the ''Revolving Credit Facility'');
- a $217.7 million non-revolving term credit facility with one of the Bank Lenders (the ''Term Credit Facility'') to re-finance the bank term debt of UGG and Agricore existing at the time of the Merger; and
- a $150 million temporary bridge facility provided by one of the Bank Lenders (the ''Bridge Facility'').

The Revolving Credit Facility has an initial maturity of July 31, 2002 and is to be used for the purpose of financing accounts receivable and inventory, refinancing of existing revolving credit facilities of the Company and Agricore and for general corporate purposes. The Term Credit Facility provides for scheduled quarterly principal repayments of $5.65 million, with the balance due on December 31, 2003. The Bridge Facility is a revolving credit and expires on May 31, 2002. The Bridge Facility is to be used to finance inventory receivables relating to the Company's crop production services business until the Company is able to offer the UGG Financial program to Agricore customers.

The terms of the New Credit Facilities require Agricore United to maintain certain consolidated financial ratios and a minimum consolidated tangible net worth, and restrict the Company's and its subsidiaries' ability to grant security interests, dispose of assets, change the nature of their respective businesses or enter into business combinations. Other covenants include a covenant prohibiting the Company from paying dividends if either there is a continuing event of default under the New Credit Facilities or the Company fails to maintain certain specified financial ratios, and a covenant requiring the Company to use its best efforts to raise a minimum of $100 million by way of the issuance of equity or an equity equivalent by July 31, 2002, 50% of the net proceeds of which is to be applied as a permanent reduction to the Term Credit Facility. The New Credit Facilities also require that the net after-tax proceeds from certain asset dispositions be applied to reduce proportionately the Term Credit Facility and the Series A and B Notes referred to below. The obligations under the New Credit Facilities are secured by fixed and floating charges over substantially all of the assets of the Company and certain of its wholly-owned subsidiaries. The Company is currently in compliance with all material terms of the New Credit Facilities.

As at November 21, 2001, the outstanding indebtedness of the Company was approximately $250 million under the Revolving Credit Facility, $217.7 million under the Term Credit Facility and $110 million under the Bridge Facility. The Company will use the net proceeds to the Company of this offering to reduce the outstanding indebtedness under each of the Term Credit Facility and the Bridge Facility by approximately $23.8 million. See ''Use of Proceeds''.

In addition to these New Credit Facilities, as at October 31, 2001, Agricore had outstanding $77 million principal amount of notes designated ''Series A'' (the ''Series A Notes''), repayable in equal annual installments in December in each of the years 2001 through 2010 inclusive, and $23 million principal amount of notes designated ''Series B'' (the ''Series B Notes''), repayable in equal annual installments in December of each of the years 2011 through 2020 inclusive. The Series A and B Notes are issued under a trust indenture (the ''Series Trust Indenture''), pursuant to which Agricore is required to observe a number of financial and other covenants, including a specified interest coverage ratio. The Series A and B Notes are secured by a fixed and floating charge demand debenture on the assets of Agricore. Under the terms of the Series Trust Indenture, Agricore required the consent of the holders of the Series A and B Notes (the ''Noteholders'') prior to completing the Merger and to entering into the New Credit Facilities. In addition, as at July 31 and October 31, 2001, Agricore was not in compliance with the specified interest coverage ratio under the Series Trust Indenture. The Noteholders granted their consent to the Merger and the New Credit Facilities and waived the default triggered by the breach of the interest coverage ratio conditional upon several events occurring, including Agricore United entering into an amended and restated Series Trust Indenture prior to January 1, 2002. The amended trust indenture will provide that the obligations of Agricore under the amended Series Trust Indenture will be obligations of both the Company and Agricore, will contain covenants substantially similar to the financial covenants under the New Credit Facilities, which will be calculated on a consolidated basis, and will require that the Company provide security for the Company's obligations under the Series A and B Notes, including by way of a charge against substantially all of the Company's assets. In addition, Agricore United, the Bank Lenders and the trustee under the Series Trust Indenture have entered into a new interlender agreement to establish the priorities of the respective security held by the Bank Lenders and the Noteholders.

As at October 31, 2001, Agricore had outstanding $50 million of notes, secured by a fixed and specific mortgage on all leasehold land and interests comprising the Cascadia port terminal. The Cascadia Series B Notes are repayable in equal annual installments in August in each of the years 2004 through 2023 inclusive.

As at October 31, 2001, Agricore also had outstanding approximately $44.9 million of unsecured loans from the former members and staff of Agricore which, subject to the receipt of all necessary regulatory approvals, will continue under Agricore United. As well, certain subsidiaries and affiliates of Agricore have their own individual financing arrangements. As at July 31, 2001, the outstanding indebtedness under these financing arrangements was approximately $110 million. These financing arrangements are not guaranteed by Agricore United, except for a U.S. $1.2 million operating facility for Demeter (1993) Inc.

Debt Reduction

As described above, the Company plans to reduce its financial leverage ratio to a range of 45% to 50% before July 31, 2003. This reduction is expected to be achieved through a combination of merger synergies, the financing of Agricore crop input receivables through UGG Financial, the application of the Company's securitization program to Agricore CWB grain inventories, the disposition of assets and the proceeds of this offering.

Merger Synergies

As discussed under ''Business of the Company – Merger of United Grain Growers Limited and Agricore Cooperative Ltd. – Synergies'', the Company expects that net sustainable annual synergies will rise to approximately $47 million by July 31, 2004.

UGG Financial

The Company's financial leverage ratio was reduced during the 2001 fiscal year from 57% at July 31, 2000 to 45% at July 31, 2001, principally as a result of the implementation of UGG Financial (see ''Business of the Company – Complementary Businesses'') to finance customer purchases of crop production services. The sale of crop inputs peaks in May, June and July as new crops are sown, with a significant portion being credit sales. Payment terms typically extend to October 31 to coincide with settlement from the proceeds of crops harvested and delivered into the country elevator system.

As at July 31, 2001, Agricore financed approximately $214 million of crop input receivables with short-term revolving bank debt. The Company intends to extend the UGG Financial program to qualifying customers of Agricore by the spring of 2002. The Company estimates that, if it were able to do so at levels of qualifying customer participation consistent with the Company's past experience, the Company's pro forma short term borrowings as at July 31, 2001 would be reduced by approximately $190 million, thereby eliminating the need for the Bridge Facility.

Securitization

The Company must finance its inventory of Board Grains from the time the farmer delivers the grain to a country elevator until the grain is unloaded at a port terminal. The Handling Agreement allows the Company to pledge its inventory of Board Grains as security to banks and the CWB reimburses the Company for carrying costs associated with these inventories. The reimbursement rate is set at prime less 0.5%, regardless of the Company's carrying cost, although an additional 0.5% will be reimbursed upon proof that the Company actually borrowed at the prime rate.

The Company has an agreement with a Canadian chartered bank which enables it to securitize (or sell on a revolving, limited recourse basis) up to $150 million in respect of its right to receive proceeds under UGG's Handling Agreement from the delivery of Board Grains. Agricore's Board Grain inventory is currently financed through a separate $100 million commercial paper program. Under the New Credit Facilities, the Company has committed to replace this facility by February 2002, and the Company intends to securitize Agricore's Board Grain inventories through a program similar to the UGG securitization program. The Company estimates that, if it were able to do so, the Company's pro forma short term borrowings as at July 31, 2001 would be reduced by approximately $80 million, thereby enhancing its credit position.

Disposition of Assets

Under the New Credit Facilities, the Company is required to apply any after-tax proceeds of disposition of assets in excess of $3 million annually to the repayment of term debt. In December 2001, Agricore United completed the sale of the Unipork Genetics business to Monsanto Company for approximately $5 million, which will be used to reduce outstanding indebtedness of the Company under the New Credit Facilities. Any proceeds arising from the disposition of country grain handling and port terminal assets required by the Competition Tribunal would similarly be applied to the repayment of term debt in accordance with the New Credit Facilities. See ''Merger and Related Transactions – Description of the Merger Transaction''.

Use of Proceeds from Offering

As described under ''Use of Proceeds'', 50% of the net proceeds to the Company from this offering will be used to reduce indebtedness of the Company under the Term Credit Facility. The balance of the net proceeds will be used to first reduce the Bridge Facility and any residual proceeds will then be used to reduce the Revolving Term Credit Facility.

Capital Expenditures and Acquisitions

The Company's financial leverage ratio is also expected to decline due to reduced borrowing for capital expenditures because the Company has substantially completed its grain handling infrastructure renewal program. Agricore United's cumulative capital expenditures over the four years from fiscal 1997 to 2000 were $730 million, with peak spending of $268 million occurring in fiscal 1999. Approximately 47% of these cumulative capital expenditures related to grain handling infrastructure renewal. By contrast, total capital spending in fiscal 2001 declined to $68 million. While the New Credit Facilities limit capital expenditures of the Company in 2002 to $60 million, the Company believes that its sustaining annual capital expenditures through fiscal 2004 will be approximately $50 million.

Outlook

Western Canada experienced a severe drought during the summer of 2001 in southern portions of Saskatchewan and Alberta. The Company's business may be adversely affected by weather conditions for a number of reasons, including reduced grain handling volumes resulting from poor harvests and reduced investment by farmers in the goods and services provided by the Company's crop production business resulting from the pressure on farm incomes. See ''Risk Factors''. The effect of the 2001 drought on the Company's results of operations for the 2002 fiscal year is currently uncertain. Statistics Canada has estimated that total Canadian exports of grains and oilseeds for the industry as a whole will be approximately 15% lower for the 2001/2002 crop year than for the 2000/2001 crop year. The

Company estimates that the impact of these reduced export volumes on industry earnings as a whole will be significantly in excess of this percentage because of the high fixed cost nature of the grain handling business. The Company has notified the insurer providing its integrated risk insurance that the Company intends to make a claim in respect of grain handling volume losses for the 2001/2002 crop year. See ''Business of the Company – Risk Management – Integrated Risk Insurance''. The Company estimates that, if total Canadian exports of grains and oilseeds for the industry as a whole were 15% lower for the 2001/2002 crop year than for the 2000/2001 crop year, then, based on current grain and oilseed prices, the EBIT from the Company's grain handling and merchandising business for the 2002 fiscal year, net of amounts recovered under the Company's integrated risk insurance, would be reduced by approximately $23 million. The Company expects that, because of the geographical dispersion of its country elevator network, the effect of the 2001 drought on its fiscal 2002 grain handling volume and EBIT will be somewhat less than the industry average.

PRO FORMA CONSOLIDATED CAPITALIZATION

The following table sets forth the capitalization of the Company as at (i) July 31, 2001 after giving effect to the Merger and related transactions; and (ii) July 31, 2001 after giving effect to the Merger and related transactions, and to this offering (including the use of proceeds).

	July 31, 2001	
	Pro Forma(1)	As Adjusted(2)
	(in thousands except for number of shares)	
Debt		
Current Debt:		
Revolving Term Credit Facility	$ 250,000	$ 250,000
Bridge Facility	32,227	8,396
Other Subsidiary Debt	108,468	108,468
Member and Staff Loans	53,600	53,600
Current Portion of Long-term Debt	28,780	28,780
	473,075	449,244
Long-term Debt:		
Term Credit Facility	200,750	176,919
Series A Notes	69,300	69,300
Series B Notes	23,000	23,000
Cascadia Series B Notes	50,000	50,000
Sundry Indebtedness	3,191	3,191
	346,241	322,410
	819,316	771,654
Shareholders' Equity		
Share Capital:		
Limited Voting Common Shares(3)	376,368	426,690
(Authorized: Unlimited)	(37,297,029 shares)	(44,006,388 shares)
Preferred Shares Issuable in Series		
(Authorized: Unlimited)		
Series A Convertible Preferred Shares	22,105	22,105
	(1,105,251 shares)	(1,105,251 shares)
Retained Earnings	74,919	74,919
Total Shareholders' Equity	473,392	523,714
Total Capitalization	$ 1,292,708	$ 1,295,368

(1) After giving effect to the Merger on the basis of the assumptions set forth in the unaudited pro forma consolidated financial statements and the New Credit Facilities discussed under ''Liquidity, Capital Resources and Outlook – Agricore United's Debt''. See ''Merger and Related Transactions – Description of the Merger Transactions'' and ''Liquidity, Capital Resources and Outlook – Agricore United's Debt''.

(2) After giving effect to the Merger on the basis of the assumptions set forth in the unaudited pro forma consolidated financial statements, the New Credit Facilities discussed under ''Liquidity, Capital Resources and Outlook – Agricore United's Debt'', this offering and the use of the net proceeds of this offering to the Company to reduce the Company's indebtedness as described under ''Use of Proceeds''.

(3) Excludes 341,028 Limited Voting Common Shares issuable upon the exercise of outstanding options granted under the Company's executive stock option plan and up to 1,006,403 Limited Voting Common Shares issuable upon the exercise of the underwriters' over-allotment option.

MERGER AND RELATED TRANSACTIONS

Description of the Merger Transaction

On November 1, 2001, the Company completed the Merger, combining the businesses of UGG and Agricore to form one of Canada's largest agri-businesses. See ''Business of the Company – Merger of United Grain Growers Limited and Agricore Cooperative Ltd.''. Prior to the Merger, Agricore, the result of the 1998 amalgamation of Manitoba Pool Elevators and Alberta Wheat Pool, was a farmer-owned co-operative operating principally in Manitoba, Alberta and northeastern British Columbia in the grain handling and merchandising, crop production services and agri-food processing businesses.

As a result of the Merger, Agricore United is one of the leading players in Canada's grain industry. The Company expects to realize substantial synergies as a result of the Merger. The Company estimates that the net synergies resulting from the Merger will be approximately $47 million annually by July 31, 2004 when the benefits of the Merger are expected to be fully realized. See ''Business of the Company – Merger of United Grain Growers Limited and Agricore Cooperative Ltd. – Synergies''.

Pursuant to the Merger, the Company issued 20,492,305 Limited Voting Common Shares to the former shareholders and members of Agricore on November 1, 2001. These shares were allocated among the former Agricore shareholders and members based on the market value of the Limited Voting Common Shares at the time of the Merger, the redemption values of the Agricore shares and the values of Agricore members' equity accounts. The Company established an assisted sales program to assist participating former Agricore members and shareholders to sell in an orderly manner, by way of a public offering or through the facilities of the Toronto Stock Exchange (the ''TSE''), Limited Voting Common Shares that they received pursuant to the Merger. See ''Selling Shareholder''. Members of Agricore immediately prior to the completion of the Merger became members of the Company upon the completion of the Merger. See ''Directors and Senior Management – Transitional By-Law''. As a result of the Merger, Agricore's successor corporation, Agricore Ltd., is now a wholly-owned subsidiary of the Company.

During the course of its review of the Merger, the Canadian Competition Bureau identified competition concerns relating to the provision of country grain elevator services in certain local geographic markets and in the provision of port terminal grain handling services at the Port of Vancouver. The Competition Bureau determined that the Merger would result in a substantial lessening of competition in these markets. The Competition Bureau also expressed concern that the Merger could result in ADM having access to proprietary information belonging to CanAmera Foods, as a result of Agricore United's minority interest in CanAmera Foods. Both ADM and CanAmera Foods process canola seeds.

In order to address the Competition Bureau's concerns and to permit the Merger to proceed, the Company agreed to divest five or six country grain elevators in Alberta and a country grain elevator in the Dauphin region of Manitoba. The Company also agreed to abide by certain confidentiality provisions with respect to its ownership interest in CanAmera Foods. The Commissioner of Competition (the ''Commissioner'') will shortly apply to the Competition Tribunal for a consent order under the *Competition Act* (Canada) requiring the divestiture of certain country elevators and requiring the Company to abide by the confidentiality provisions in respect of non-public information pertaining to CanAmera Foods to which the Company gains access as a result of its investment in CanAmera Foods. The Commissioner will also apply to the Competition Tribunal for an order requiring the divestiture of a port terminal in Vancouver. Both the Company and the Commissioner agree that the divestiture of either Agricore United's port terminal (the ''UGG Port Terminal'') or the former Agricore port terminal facility (the ''Pacific Elevators'') would remedy the substantial lessening of competition alleged by the Commissioner. However, the Company will ask the Competition Tribunal to also consider whether a divestiture of only one of the grain handling elevators comprising part of the Pacific Elevators facility would be sufficient to address the alleged substantial lessening of competition at the Port of Vancouver.

Pending the issuance of final orders by the Competition Tribunal, the Commissioner will, with the consent of the Company, apply to the Competition Tribunal for two interim consent orders directing the Company to, among other things, maintain and preserve the assets subject to the Competition Tribunal proceedings and to offer to handle at least 125,000 metric tonnes of grain per month (1.5 million metric tonnes per year) for independent grain handling companies at the Port of Vancouver.

The Company does not expect any required divestitures to have a material effect on the Company's results of operations.

Amendments to Strategic Alliance with Archer Daniels Midland Company

In 1997, the Company and ADM entered into agreements (the ''ADM Agreements'') creating a strategic alliance between the two companies in respect of the Company's grain handling business and ADM's downstream processing operations. See ''Business of the Company – Strategic Alliance with Archer Daniels Midland Company''.

Under the ADM Agreements, the Company issued to ADM from treasury 7,035,570 Limited Voting Common Shares (then representing approximately 45% of the outstanding Limited Voting Common Shares) for gross proceeds of approximately $112.6 million (or $16 per Limited Voting Common Share). The proceeds were used, in part, to fund a substantial issuer bid by the Company for 3,908,650 Limited Voting Common Shares at $16 per share. In connection with the formation of the strategic alliance, ADM and the Company entered into agreements relating to, among other things, pre-emptive rights, standstill arrangements and nominee directors.

The Company and ADM agreed to amend the ADM Agreements in connection with the Merger to facilitate the Merger and to reflect the post-Merger ownership and governance structure of Agricore United. Contemporaneously with the signing of the Merger Agreement, ADM entered into an agreement with the Company and Agricore, pursuant to which ADM agreed to support the Merger; to provide a limited waiver of its pre-emptive rights under the ADM Agreements; and to enter into an agreement (the ''Amending Agreement'') on the effective date of the Merger to amend the ADM Agreements. ADM and the Company entered into the Amending Agreement on November 1, 2001.

The following is a summary of the principal terms of the ADM Agreements, as amended by the Amending Agreement:

- Agricore United agreed to support the election of (i) two nominees of ADM to Agricore United's board of directors for so long as ADM owns at least 15% of the outstanding Limited Voting Common Shares and (ii) one nominee of ADM to Agricore United's board of directors if ADM owns less than 15% of the Limited Voting Common Shares, but is the largest single holder of Limited Voting Common Shares;
- until November 1, 2004, ADM will be prohibited from acquiring more than 25% of the outstanding Limited Voting Common Shares (except pursuant to the pre-emptive right referred to below and pursuant to a take-over bid for all of the Limited Voting Common Shares);
- after November 1, 2004, ADM will be prohibited from acquiring more than 45% of the outstanding Limited Voting Common Shares (except pursuant to a take-over bid for all of the Limited Voting Common Shares);
- ADM's standstill agreement will terminate on the date on which ADM owns less than 15% of the Limited Voting Common Shares for a period of six consecutive months and is no longer the largest single holder of Limited Voting Common Shares at the end of such six-month period;
- until November 1, 2004, ADM will have a pre-emptive right in respect of any treasury offering by the Company of Limited Voting Common Shares (or securities convertible into or exchangeable for Limited Voting Common Shares) to increase its share ownership up to 45% of the outstanding Limited Voting Common Shares;
- after November 1, 2004, ADM will have a pre-emptive right to maintain its proportionate shareholding in the Company; and
- if any third party makes a proposal to acquire Agricore United or all or substantially all of its assets that has been accepted or recommended by Agricore United, ADM will be required to vote or tender its Limited Voting Common Shares in favour of or into that proposal, unless ADM makes a proposal to Agricore United that the board of directors of Agricore United has determined is more favourable than the proposal made by the third party.

ADM was entitled, subject to approval of the TSE, to subscribe for that number of Limited Voting Common Shares that would result in ADM owning 25% of the outstanding Limited Voting Common Shares, after giving effect to the Merger and such subscription, for a subscription price equal to the weighted average trading price for the Limited Voting Common Shares on the TSE for the 10 trading days immediately preceding the day on which ADM gave the Company notice of its intention to exercise this right. This right was exercisable from November 19, 2001 to December 4, 2001. ADM did not exercise this pre-emptive right.

ADM has advised the Company that it will exercise its pre-emptive rights in connection with this offering to purchase 1,720,246 Limited Voting Common Shares pursuant to this offering. After giving effect to this offering and ADM's purchase, ADM will own 8,758,337 Limited Voting Common Shares representing approximately 19% of the outstanding Limited Voting Common Shares of the Company.

DIVIDEND RECORD AND POLICY

The Company has paid dividends in 92 of the past 95 years, having missed dividend payments three times in the 1930s as a result of a prolonged prairie-wide drought. Since the Company's 1993 capital reorganization, the board of directors of the Company has declared and paid an annual cash dividend on the Limited Voting Common Shares of $0.25 per share and on the Series A Convertible Preferred Shares of $1.00 per share.

On September 1, 2001, the Company paid a dividend of $0.25 per Limited Voting Common Share to the shareholders of record at July 31, 2001. On the same date, the Company paid a dividend of $1.00 per Series A Convertible Preferred Share to shareholders of record at the close of business on July 31, 2001.

The board of directors of the Company intends to continue declaring and paying annual dividends on the Limited Voting Common Shares of approximately $0.25 per share and on the Series A Shares of $1.00 per share. This policy will be reviewed from time to time in light of the Company's cash flow, earnings, financial position, and other factors considered relevant by the board of directors. The Company anticipates that the board of directors of the Company will next consider the payment of dividends in September 2002. The New Credit Facilities include a covenant prohibiting the Company from paying dividends if there is a continuing event of default under the New Credit Facilities or if the Company fails to maintain certain specified financial ratios.

DESCRIPTION OF CORPORATE STRUCTURE

On March 31, 1993, the Company completed a reorganization of its capital structure, pursuant to the terms of a capital reorganization and restructuring proposal (the ''Plan'') in anticipation of its initial public offering. As part of the Plan, the Company was continued under and is now governed by the UGG Act, a special act of the Parliament of Canada. The UGG Act provides that the Company shall consist of both members and shareholders, the rights of which are described below.

United Grain Growers Act

The following summary of certain provisions of the UGG Act is not complete. Prospective investors should refer to the UGG Act. The UGG Act incorporates by reference certain provisions of the CBCA, which, with certain exceptions described below, relate to matters not covered by the UGG Act and that are not in conflict with the UGG Act.

The UGG Act requires that the board of directors consists of fifteen directors, twelve of whom are ''member-directors'' to be elected at the annual meeting of members and three of whom are ''non-member directors'' to be elected at the annual meeting of holders of the Limited Voting Common Shares. Unless the Company's by-laws otherwise provide, a member-director must be a member and a holder of Limited Voting Common Shares and of the twelve member-directors, three must reside in Manitoba, four must reside in each of Saskatchewan and Alberta (other than the Peace River District), and one must reside in the Peace River District of Alberta or British Columbia. In connection with the Merger, the Company adopted a transitional by-law that suspends the residency requirements of the UGG Act and the general by-law of the Company until the close of business at the 2005 annual members' meeting unless otherwise amended or repealed prior to that time. See ''Directors and Senior Management –Transitional By-Law''. A non-member director must not be a member of the Company. The directors are entitled to fill any vacancy arising by virtue of death or disability of a director or a director ceasing to be qualified to so act. Directors are elected for staggered terms of three years. Shareholders are entitled to remove any non-member director by resolution approved by the affirmative vote of the holders of not less than 75% of the outstanding Limited Voting Common Shares at a special meeting called for such purpose (a ''75% Resolution'').

The provisions of the UGG Act dealing with the qualifications, residency or numbers of directors, the procedure for director nomination and election, term of office for directors and the structure of membership in the Company, may only be altered if approved by a 75% Resolution. In addition, the Company can be continued under the CBCA (following which the Company would be governed by the CBCA in its entirety and would cease to be subject to the provisions of the UGG Act as described above) if approved by a 75% Resolution. Any other change to the UGG Act requires the affirmative vote of holders of not less than two-thirds of the outstanding Limited Voting Common Shares present and voting in person or by proxy at a special meeting of shareholders. Any amendment to the UGG Act would require a petition to Parliament for a special act to effect such amendment.

The provisions of the CBCA relating to fundamental changes, including amendments to authorized share capital and the rights and restrictions attaching to each class and series of shares, amalgamations, arrangements, reorganizations, the sale of all or substantially all of the property of a corporation, and class votes and dissent and appraisal remedies normally applicable to such fundamental changes, do not apply to the Company. In addition, the provisions of the CBCA relating to takeover bids, including compulsory rights of acquisition available following substantial acceptance of a takeover bid, do not apply to the Company. However, any takeover bid for the Limited Voting Common Shares would be subject to the procedural and substantive provisions of applicable securities legislation in the jurisdictions in which the holders of Limited Voting Common Shares reside.

Members of the Company

Members are farming customers of the Company. The Board of Directors has established, by by-law, qualifications for members, conditions of membership and provisions for the governance of members. Individuals may apply to the Company to become a member, if they are a farmer, owner or lessee of a farm, either directly or through a corporation, partnership, firm, colony or joint farming operation, and have done at least $3,000 of business with the Company during the past two fiscal years. Members of Agricore immediately prior to the Merger became members of the Company immediately after the Merger. See ‘‘Directors and Senior Management – Transitional By-Law’’. Members are grouped on the basis of territorial districts or member advisory groups.

A member is entitled to attend general membership meetings of the Company, is eligible to act as a director of a member advisory group, may participate in the nomination and election of delegates to the annual meeting of members, is eligible to act as a delegate and, subject to other qualifications, is eligible to be a member-director of the Company. Delegates and directors must also be shareholders of the Company. A member (as such) is not entitled to share in any profit or distribution of the Company and is not entitled to participate in the distribution of assets upon dissolution or winding-up of the Company. Members must approve any dissolution and liquidation of the Company in accordance with the provisions of the CBCA, as if members were a separate class of shareholder for the purpose of voting only.

Description of Share Capital

The UGG Act provides that the authorized capital of the Company consists of an unlimited number of preferred shares, issuable in series (the ‘‘Preferred Shares’’) and an unlimited number of Limited Voting Common Shares. As at December 10, 2001, 1,105,188 Series A Convertible Preferred Shares (‘‘Series A Shares’’) and 37,302,385 Limited Voting Common Shares were outstanding. The following is a summary of the material provisions of the share capital of the Company.

Preferred Shares

The Preferred Shares may be issued from time to time in one or more series, each series comprising the number of shares, and having the designation, rights, privileges, restrictions and conditions which the board of directors of the Company determines by resolution. The Preferred Shares rank prior to the Limited Voting Common Shares with respect to payment of dividends and distributions in the event of liquidation, dissolution or winding-up of the Company. Except as required by law, the holders of the Preferred Shares as a class are not entitled to receive notice of, to attend, or to vote at any meeting of the shareholders of the Company.

Series A Convertible Preferred Shares

Dividends

The holders of Series A Shares are entitled to receive fixed cumulative preferential cash dividends, as and when declared by the board of directors of the Company, at a rate of $1.00 per share per annum payable annually on the first day of September in each year, provided that the directors may alter the dividend payment date in any given year.

Conversion Privilege

The Series A Shares are convertible at the option of the holder at any time prior to redemption, on the basis of one Limited Voting Common Share for each Series A Share, subject to normal anti-dilution adjustments in the event of a subdivision, consolidation, reclassification or other change in the outstanding Limited Voting Common Shares or in the event certain distributions to the holders of Limited Voting Common Shares are made, including non-ordinary course dividends.

Redemption and Purchase for Cancellation

The Company may, on not less than 30 days' notice, redeem the whole or, from time to time, any part of the outstanding Series A Shares at a price of $24.00 per share plus accrued and unpaid dividends. The payment of the redemption amount may be satisfied, at the Company's option, in cash or through the issuance of Limited Voting Common Shares, provided the Limited Voting Common Shares have a market value at that time of not less than $24.00 per share.

Except as noted under ''– Restrictions on Dividends and Retirement and Issue of Shares'', the Company may at any time and from time to time purchase for cancellation all or any number of Series A Shares at any price by tender to all holders of Series A Shares or through the facilities of any stock exchange on which the Series A Shares are listed or in any other manner provided that in such case the price for each Series A Share so purchased for cancellation shall not exceed $24.00 plus an amount equal to dividends accrued and unpaid to the date of purchase and costs of purchase.

Restrictions on Dividends and Retirement and Issue of Shares

If at any time, dividends payable on the Series A Shares and on all other shares ranking as to dividends on a parity with the Series A Shares have not been declared and paid or monies set apart for payment, then the Company may not, without the approval of holders of the outstanding Series A Shares:

(a) declare or pay a dividend on the Limited Voting Common Shares or any other shares of the Company ranking as to the payment of dividends junior to the Series A Shares (other than stock dividends in shares ranking as to dividends junior to the Series A Shares);

(b) redeem, purchase for cancellation or otherwise retire or make any capital distribution on or in respect of any Limited Voting Common Shares or other shares ranking as to the return of capital junior to the Series A Shares (except out of the net proceeds of an issue of shares of the Company ranking as to capital junior to the Series A Shares);

(c) redeem, purchase or otherwise retire less than all the Series A Shares;

(d) redeem, purchase or otherwise retire any other shares of the Company ranking as to the payment of dividends or the return of capital prior to or on a parity with the Series A Shares; or

(e) issue any additional convertible Preferred Shares or any shares ranking as to the payment of dividends or the return of capital prior to or on a parity with the Series A Shares.

Voting Rights

The holders of the Series A Shares are not entitled to receive notice of or to attend or to vote at any meeting of shareholders of the Company.

Rights of Liquidation

In the event of the liquidation, dissolution or winding-up of the Company, the holders of the Series A Shares will be entitled to receive an amount equal to $20.00 per share together with all accrued and unpaid cumulative dividends thereon in priority to the entitlement of the holders of Limited Voting Common Shares and other shares ranking as to the return of capital junior to the Series A Shares.

Modification of Series

If the Company is continued under the CBCA, approval of amendments to the provisions of the Series A Shares as a series and any other authorization required to be given by the holders of Series A Shares may be given by a resolution carried by an affirmative vote of not less than two-thirds of the votes cast at a meeting of the holders of Series A Shares duly called and held for such purpose.

Limited Voting Common Shares

Dividends

The holders of Limited Voting Common Shares participate equally, share-for-share, as to all dividends declared on the Limited Voting Common Shares by the board of directors of the Company out of funds legally available therefor.

Dissolution

In the event of the dissolution, liquidation or winding-up of the Company, the holders of Limited Voting Common Shares will be entitled, share-for-share, to receive on a *pro rata* basis, all of the assets of the Company remaining after payment of all the Company's liabilities, subject to the preferential rights of the Series A Shares and any other shares ranking prior to the Limited Voting Common Shares.

Voting Rights

A holder of Limited Voting Common Shares is entitled to receive notice of and to attend all meetings of the shareholders of the Company, other than meetings at which only holders of another class or series of shares is entitled to vote, and shall have one vote for each Limited Voting Common Share held. Unless such holder is also a member, however, a holder of Limited Voting Common Shares is not entitled to attend or vote at any meeting of members. The right of holders of Limited Voting Common Shares to elect directors is restricted to the election of three of the Company's 15 directors. See ''– United Grain Growers Act''. The Company has agreed to support the election of two nominees of ADM to the Company's board of directors for so long as ADM owns at least 15% of the outstanding Limited Voting Common Shares. See ''Merger and Related Transactions – Amendment to Strategic Alliance with Archer Daniels Midland Company''.

DIRECTORS AND SENIOR MANAGEMENT

Transitional By-Law

In connection with the Merger, the Company adopted a transitional by-law (''By-Law No. 42''), which came into force on November 1, 2001, in order to allow the former members of Agricore (the ''Agricore Members'') and former delegates of Agricore (the ''Agricore Delegates'') and certain of the Agricore Directors to carry forward as members, delegates or directors of the Company. The shareholders of the Company ratified By-Law No. 42 at the annual shareholders' meeting held on November 7, 2001.

Under By-Law No. 42, all of the Agricore Members immediately prior to the completion of the Merger became members of the Company and will remain as members until at least until July 31, 2002, without the need to pay any fees to the Company. After July 31, 2002, the members of the Company and the Agricore Members will continue as members of the Company only if they have done $3,000 of business with Agricore and/or the Company within a rolling two fiscal year period. Agricore Members who do not wish to continue as members of the Company are entitled to terminate their membership with the Company at any time.

Under By-Law No. 42, all of the existing Agricore Delegates also became delegates of the Company for the purposes of the Company's 2001 annual members' meeting held on November 7 and 8, 2001. The Company's members will elect individuals to serve as delegates of the Company for the 2002 annual members' meeting in accordance with the process determined by the board of directors of the Company.

As required by By-Law No. 42, prior to the completion of the Merger, the Agricore Delegates, in the case of Agricore, and the board of directors of the Company, in the case of the Company, selected six of their existing member-elected directors to serve as directors of the Company after the Merger. With respect to Agricore, the six directors who were selected by the Agricore Delegates from the then existing 12 directors of Agricore were Hugh F. Drake, Donald W. Lunty, Mel A. McNaughton, Rob Pettinger, Neil D. Silver and James M. Wilson (the ''Agricore Directors''). With respect to the Company, the six directors who were selected by the Company's board of directors from the then twelve member-directors of the Company were Theodore M. Allen, Wayne W. Drul, Maurice A. Lemay, Kenneth M. Motiuk, Ernest J. Sirski and Terry V. Youzwa (the ''UGG Directors''). The three UGG Directors who are not member-directors and who were elected by the Company's shareholders continued to serve their existing terms.

By-Law No. 42 provides that, of the six UGG Directors, one must reside in Manitoba, one must reside in Saskatchewan and one must reside in Alberta (including the Peace River district of Alberta and British Columbia). The Agricore Directors and UGG Directors hold office for staggered terms, with the terms of two Agricore Directors and two UGG Directors expiring at the close of business at the 2002 annual members' meeting of the Company, the terms of two more Agricore Directors and two more UGG Directors expiring at the close of business at the 2003 annual members' meeting of the Company and the terms of the final two Agricore Directors and final two UGG Directors expiring at the close of business at the 2004 annual members' meeting of the Company. See '' – Directors''. At the end of such terms, such individuals may be re-elected or new individuals may be elected in their place in accordance with the UGG Act and the then existing by-laws of the Company. The provisions in the UGG Act and the general by-law of the Company relating to the residency requirements for the Company's board of directors have been suspended by By-Law No. 42 until the close of business at the 2005 annual members' meeting of the Company, unless otherwise changed by the Company in accordance with the UGG Act and by-laws.

The board of directors of the Company met pursuant to By-Law No. 42 after the completion of the Merger in order to elect the Chairman and President, and First Vice-President of the Company, one of whom was to be an Agricore Director and one of whom was to be a UGG Director. The Company's board of directors selected Theodore M. Allen to serve as Chairman and President and Mel A. McNaughton to serve as First Vice-President at such meeting.

Directors

The following table sets forth certain information regarding the directors of Agricore United.

Name	Position	Principal Occupation	Term of Office Expires
THEODORE M. ALLEN(1)(7)	Director	Chairman and President of the Company	2004
HUGH F. DRAKE (3)(4)	Director	Farmer	2002
WAYNE W. DRUL(1)(4)(5)	Director	Farmer and Manitoba Vice President of the Company	2004
CRAIG L. HAMLIN(5)(7)(8)(9)	Director	Corporate Director	2004
BURNELL D. KRAFT(2)(8)(9)	Director	Corporate Director	2003
MAURICE A. LEMAY(2)(6)	Director	Farmer	2003
DONALD W. LUNTY(3)(4)	Director	Farmer	2004
MEL A. MCNAUGHTON(1)(2)(6)	Director	Farmer and First Vice President of the Company	2002
KENNETH M. MOTIUK(1)(3)(5)	Director	Farmer and Alberta Vice President of the Company	2002
ROB PETTINGER(5)(6)	Director	Farmer	2004
NEIL D. SILVER(4)(5)	Director	Farmer	2003
ERNEST J. SIRSKI(3)(4)	Director	Farmer	2003
JAMES M. WILSON(2)(3)	Director	Farmer	2003
FRANCIS W. WOODWARD(2)(8)	Director	Corporate Director	2002
TERRY V. YOUZWA(1)(2)(6)	Director	Farmer and Saskatchewan Vice President of the Company	2002

(1) Member of the Executive Committee.
(2) Member of the Audit Committee.
(3) Member of the Grants, Donations and Education Committee.
(4) Member of the Risk Management Committee.
(5) Member of the Compensation/Pension Committee.
(6) Member of the Member Advisory Group Review Committee.
(7) Member of the Grain Operations Committee.
(8) Non-member director.
(9) ADM nominee.

All directors, other than non-member directors, are members of the Agricultural Policy Committee.

Committees of the Board of Directors

Executive Committee

The Executive Committee is composed of the President and Chairman of the Board and the First Vice President, as well as the three Provincial Vice-Presidents. The Executive Committee serves as the nominating committee for purposes of recruitment of the non-member director that is not an ADM representative. The Executive Committee is also responsible for corporate governance practices as well as the assessment of director performance. The member directors are nominated by the members (and elected by delegates) without direction or influence from either the board of directors of the Company or management, except that member directors may participate in the nomination process in their capacity as members.

Audit Committee

The Audit Committee consists of four member-directors and two non-member directors. All are independent from the Company's management. The Audit Committee's terms of reference are defined in a written Charter established by the board of directors of the Company. The Charter was established in 1994 and is revised periodically as required, most recently in June 1999. The Audit Committee has direct communication with Company management and external auditors and meets at least quarterly to discuss and review appropriate matters. The Audit Committee's responsibilities include reviewing interim and annual financial statements and recommending to the Board their approval for inclusion in the quarterly and annual reports, respectively. During its review, the Audit Committee discusses the financial statements and accounting principles with management and the auditors. Other Audit Committee responsibilities include overseeing and monitoring of the quality of internal controls and the independence of the auditors.

Agricultural Policy Committee

Composed of the twelve member-directors, the purpose of the Agricultural Policy Committee is to advance and promote the interests of the Company's customers in agricultural policy areas and advise management on related issues. The Committee receives the advice of the Company members, expressed in resolutions passed at the annual members' meetings. The Members Advisory Group Review Committee and the Grants, Donations and Education Committee are subcommittees of the Agricultural Policy Committee.

Member Advisory Group Review Committee

The Member Advisory Group Review Committee is currently composed of four member-directors. The Member Advisory Review Committee monitors the structure of the Member Advisory Groups, which promote the involvement of members in the Company's business activities. This Committee continually seeks ways to enhance the vital advisory role played by the Company's customers.

The Member Advisory Group Committee has the additional mandate to review the structure and location of the Company's current Member Advisory Groups and to assess and make recommendations to the Agricultural Policy Committee respecting:

(a) the integration of former Agricore Members into existing Member Advisory Groups; and

(b) if considered appropriate for the overall efficiency of the Member Advisory Group structure:

  (i) the establishment of new Member Advisory Group locations; and

  (ii) the assignment of Agricore Members to such new Member Advisory Group locations and the option for existing Company members to be members at such new locations.

Grants, Donations and Education Committee

The Grants, Donations and Education Committee of the Board is composed of five member-directors. The Company pursues the following corporate policy:

- the Company intends to donate annually to charitable and non-profit groups the equivalent of at least 1% of its three-year average domestic pre-tax profit; and
- the Company encourages personal charitable giving by its employees and supports their volunteer involvement with such organizations.

Targeting Farm Safety, Agriculture in the Classroom, 4-H and other youth programs, education and planned projects relating to the agricultural industry, this Committee fulfils the Company's commitment to the community by reviewing and approving requests for funding from a portion of the funds earmarked for charitable purposes.

Compensation/Pension Committee

The Compensation/Pension Committee is composed of four member-directors and one non-member director who review significant compensation and pension matters. The Committee recommends executive and employee compensation policies and monitors the Company's pension plan, to ensure all compensation and pension policies are fair and appropriate.

Risk Management Committee

Composed of five member-directors, the Risk Management Committee reviews and monitors the management of the Company's principal risks, including inventory, foreign exchange, credit risk and other business exposures, regulatory compliance, staff training, insurance, employee and public safety and security, and environmental affairs and responsibility. This committee is responsible for ensuring that all of the Company's divisions operate in accordance with established policy, procedures, industry standards and responsible business practices.

Grain Operations Committee

The Grain Operations Committee was recently established to develop and implement business strategies involving the Company and ADM to capture the strategic benefits to both companies of their relationship. A formal mandate has not yet been adopted.

Senior Management

The following is a brief biography of each of Agricore United's officers and senior management.

Theodore M. Allen has served as President and Chairman of the Board since November 1990. He has been a director of the Company since 1973. Mr. Allen has extensive experience in the agricultural sector, having farmed near Taber, Alberta for over 25 years. He has also served as Chairman of the Canada Grains Council, and as a member of the Sectoral Advisory Group on International Trade (agriculture), a consultative group appointed by the Government of Canada to advise on the Uruguay Round of trade negotiations. Mr. Allen also served as a Director of Prince Rupert Grain Limited and was a Director of the Royal Bank of Canada. He is 60 years old and holds a Bachelor of Arts in Economics from the University of Alberta. Mr. Allen resides in Calgary, Alberta.

Brian Hayward has served as Chief Executive Officer since January 1991. From 1988 to 1991, he served as Manager of Grain Marketing Operations overseeing domestic and international trading activities and UGG's Transportation Department. From 1986 to 1988, he served as Manager of the Company's Research and Consulting Department, which he was instrumental in developing. From 1981 to 1986, he served as a Grain Marketing Analyst and Commodity Trader with the Company. He is a member of the Board of Governors and a former Chairman of the Winnipeg Commodity Exchange. Mr. Hayward is 45 years old and holds a Master of Science degree in Agricultural Economics from McGill University.

Peter G. M. Cox joined the Company in January 1995 as the Chief Financial Officer. Prior to joining the Company, he served as Vice-President, Finance of a publicly-traded Canadian manufacturing company, as Corporate Controller of a U.K. multinational company and with an international firm of public accountants. He holds a Bachelors degree in Economics, a Masters degree in Business Administration and is a U.K. Chartered Accountant and a Canadian Certified Management Accountant. He is 58 years old.

Thomas W. Kirk joined the Company in 1996 and has served as the Corporate Secretary since January 2000 while continuing his responsibilities as Corporate Counsel. From 1975 to 1996, he practised law as an associate and subsequently as a partner with Thompson Dorfman Sweatman in Winnipeg. Upon joining the Company, he served as Corporate Counsel and in 1997 was appointed Associate Secretary. Mr. Kirk is 55 years old, holds a Bachelor of Law degree from the University of Manitoba and is a Fellow of the Chartered Institute of Secretaries and Administrators.

Christopher W. Martin has served as Corporate Counsel since February 1994 and General Counsel since February 1996. From 1982 to 1994, he practised law as an associate and subsequently as a partner with Wolch, Pinx, Tapper and Scurfield. Mr. Martin is 43 years old and holds a Bachelor of Law degree from the University of Manitoba.

Palmer Douglas Wilfred Anderson has served as Managing Director, Farm Business Communications since July 1991. He joined the Company in 1988 as Customer Service Supervisor with Public Press Printing. Between 1989 and 1991, he served as Assistant Manager and later Manager of the Company's printing operations. Mr. Anderson brings to his current role over 30 years of printing and publishing experience. He is 60 years old.

Ronald J. Enns has served as Managing Director, Farm Sales and Service since August 1995. He joined the Company in 1986 as a Research Analyst and also served as Managing Director, Corporate Development. Prior to joining the Company, Mr. Enns gained experience in the agricultural sector through positions held in both government and commercial farming. He is 47 years old and holds a Bachelor of Arts from the University of Winnipeg and a Diploma in Agriculture and Master of Science in Agricultural Economics from the University of Manitoba.

Stanley Murdoch MacKay has served as Managing Director, Terminal Services Division since September 1985. Since joining the Company in 1979 as a Grain Trader in the Commodity Marketing Division, he has served in various management capacities with the Terminal Services Division. He is a Director of the Canada Pools Clearance Association. Mr. MacKay is 50 years old, and holds Bachelor of Arts degrees from Carleton University and the University of Manitoba.

William R. McGill joined the Company in December 1993 as Managing Director, Livestock Services Division. Prior to joining the Company, he served as Chief Executive Officer of Carleton Hatcheries and Dunn-Rite Food Products. He holds a Bachelor of Science degree in Engineering from the University of Manitoba and a Master of Science degree in Applied Science from the University of Waterloo. Mr. McGill is 55 years old and resides in Calgary, Alberta.

Harold Schmaltz became the Managing Director, Crop Production Services of the Company on the completion of the Merger. Prior to the Merger, Mr. Schmaltz was Agricore's General Manager, Agri Business. Mr. Schmaltz has spent his entire career in the agricultural industry. He joined Agricore (then Alberta Wheat Pool) in 1984. He is 44 years old and holds an MBA from the University of Calgary.

Gary J. Timlick became the Managing Director, Corporate Development and Investor Relations of the Company on the completion of the Merger. Prior to the Merger, he served as the Chief Financial Officer of Agricore and, prior to the creation of Agricore, was the Chief Financial Officer of Manitoba Pool Elevators. He holds a Bachelor of Commerce from the University of Manitoba and is a Chartered Accountant. Mr. Timlick is 44 years old.

Gerald O. Valois has served as Managing Director, Human Resources since he joined the Company in December 1991. From 1989 to 1991, he operated his own management consulting practice, and from 1985 to 1989, he served as Vice President of Human Resources with InterCity Gas Corporation. Mr. Valois is 53 years old and holds Bachelors degrees in Arts and Education from the University of Manitoba.

Edgar Bradley Vannan has served as Managing Director of Merchandising and Transportation Services since June 2000. He joined the Company as Regional Manager, Southern Alberta in the Farm Sales and Services Division in 1994 and has served in progressively more responsible management capacities within the Merchandising and Transportation Services division since. Prior to joining the Company, he spent 10 years merchandising grain for another agri-business company. Mr. Vannan is 39 years old and holds a Bachelor of Science Degree in Agriculture from the University of Manitoba.

Guy L. Wood has served as Managing Director, Management Information Systems since he joined the Company in May 1985. From 1981 until he joined the Company, he served as Corporate Director of computing with K-Tel International. Mr. Wood has over 30 years of management information experience. He is 58 years old.

As at November 20, 2001, the directors and senior management of the Company, as a group, beneficially owned 202,839 Limited Voting Common Shares and 2,313 Series A Shares, representing 0.5% of the outstanding Limited Voting Common Shares and 0.2% of the outstanding Class A Shares prior to this offering. The Limited Voting Common Shares beneficially owned by the directors and senior management of the Company represent 0.5% of the outstanding Limited Voting Common Shares after giving effect to this offering.

The Member Directors of the Company, as customers of Agricore United, may incur trade indebtedness to the Company from time to time in the ordinary course of business, including in connection with purchases of crop inputs. As at November 20, 2001, the aggregate amount of such indebtedness was $190,342. None of the directors of the Company has any other, non-ordinary course indebtedness owing to the Company.

PRINCIPAL SHAREHOLDER

As at November 20, 2001, the only person or company who owned of record, or who to the knowledge of the Company owned beneficially, directly or indirectly, more than 10% of the Limited Voting Common Shares was ADM, which owned 7,038,091 Limited Voting Common Shares representing approximately 19% of the outstanding Limited Voting Common Shares. ADM has advised the Company that it will purchase 1,720,246 Limited Voting Common Shares under this offering pursuant to the exercise of its pre-emptive rights. After giving effect to this offering and ADM's purchase, ADM will own approximately 19% of the outstanding Limited Voting Common Shares.

SELLING SHAREHOLDER

Agricore Assisted Sales Corporation (the ''Selling Shareholder'') is offering for sale under this prospectus 6,290,641 Limited Voting Common Shares.

In connection with the Merger, the Company established the Assisted Sales Program to assist participating former Agricore members and shareholders (the ''Participating Stakeholders'') to sell in an orderly manner, by way of a public offering or through the facilities of the TSE, Limited Voting Common Shares that they received in exchange for their interests in Agricore on the completion of the Merger. Under the Assisted Sales Program, on or before the date of closing of this offering, the Selling Shareholder will acquire the Participating Stakeholders' Limited Voting Common Shares to be sold pursuant to this offering for consideration equal to the offering price hereunder. Computershare Trust Company of Canada (the ''Program Administrator'') has been appointed agent for the Participating Stakeholders in connection with the sale of their Limited Voting Common Shares under the Assisted Sales Program. The Participating Stakeholders have irrevocably empowered the Program Administrator to transfer such Limited Voting Common Shares to the Selling Shareholder in connection with the Assisted Sales Program.

The Selling Shareholder is an Ontario corporation, newly-incorporated in connection with the Assisted Sales Program. The Selling Shareholder does not currently own any Limited Voting Common Shares and will not own any Limited Voting Common Shares after the completion of the Assisted Sales Program.

Each Participating Stakeholder is required to pay $0.02 per share sold under the Assisted Sales Program towards reimbursement of expenses incurred in connection with the Assisted Sales Program and this offering. The Company also has agreed to indemnify and hold harmless the Program Administrator from any liabilities arising out of acts performed by the Program Administrator as administrator of the Assisted Sales Program.

USE OF PROCEEDS

The estimated net proceeds to the Company from this offering will be $47,662,970 after deducting the Underwriters' fee and the estimated expenses of this offering. If the Underwriters exercise their over-allotment option in full, the net proceeds to the Company will be approximately $55,311,633.

The net proceeds to the Company from this offering will be used to reduce the indebtedness of the Company under the Term Credit Facility by approximately $23.8 million and under the Bridge Facility by approximately $23.8 million.

Affiliates of certain of the Underwriters are lenders to the Company. Accordingly, the Company may be considered to be a connected issuer of each such Underwriter within the meaning of applicable Canadian securities legislation. See ''Plan of Distribution''.

All of the proceeds from the sale of Limited Voting Common Shares hereunder by the Selling Shareholder will be received by the Selling Shareholder and paid to the Participating Stakeholders participating in the Assisted Sales Program. The Company will not receive any proceeds from the sale of these shares.

PLAN OF DISTRIBUTION

Under an agreement dated December 11, 2001 (the ''Underwriting Agreement''), Scotia Capital Inc., National Bank Financial Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., HSBC Securities (Canada) Inc., Pollitt & Co. Inc. and Wellington West Capital Inc. (the ''Underwriters'') have severally agreed to purchase, and the Company and the Selling Shareholder have agreed to sell, an aggregate of 13,000,000 Limited Voting Common Shares (the ''Offered Shares''), on December 17, 2001 or on such other date as may be agreed between the Company and the Underwriters but, in any event, not later than January 23, 2002, at a price of $8.00 per Offered Share, against delivery of certificates representing such shares, subject to compliance with all necessary legal requirements and to conditions contained in the Underwriting Agreement. After the initial offering, the offering price may be changed by the Underwriters. The Underwriting Agreement provides that the Company will pay to the Underwriters an aggregate fee of $4,511,902, in respect of all of the Offered Shares (excluding any Offered Shares purchased by ADM under this offering), or $0.40 per Offered Share, in consideration of their services in connection with this offering.

In order to cover any over-allotments, if any, the Company has granted to the Underwriters an option (the ''Over-Allotment Option'') to purchase an aggregate of up to 1,006,403 Limited Voting Common Shares exercisable for a period of 30 days after the closing date of this offering. To the extent that the Over-Allotment Option is exercised, the additional Limited Voting Common Shares will be purchased by the Underwriters at the public offering price. The Company will pay to the Underwriters a fee of $0.40 per Limited Voting Common Share with respect to Limited Voting Common Shares issued under the Over-Allotment Option. This prospectus qualifies the distribution of the Over-Allotment Option and the Limited Voting Common Shares issuable upon the exercise thereof. This prospectus also qualifies the distribution of any Limited Voting Common Shares issued to ADM in connection with the exercise of its pre-emptive rights in respect of any exercise of the Over-Allotment Option. See ''Merger and Related Transactions – Amendments to Strategic Alliance with Archer Daniels Midland Company''.

The Company has agreed to indemnify the Underwriters against certain liabilities pursuant to the Underwriting Agreement, including liabilities under Canadian securities legislation. The Company has agreed to indemnify and hold harmless the Selling Shareholder and each Participating Stakeholder from and against certain liabilities relating to this offering, including any liabilities resulting from a misrepresentation in this prospectus.

The Company has agreed to pay the expenses of the offering, which the Company estimates to be approximately $1.5 million. The Selling Shareholder is not required to pay any portion of the expenses of this offering or the Underwriters' fee. Instead, each Participating Stakeholder is required to pay $0.02 per share sold under the Assisted Sales Program towards reimbursement of expenses incurred in connection with the Assisted Sales Program and this offering. See ''Selling Shareholder''.

This offering is being made in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec and Nova Scotia. This prospectus also qualifies the sale of Limited Voting Common Shares by the Participating Stakeholders to the Selling Shareholder.

The Offered Shares have not and will not be registered under the *United States Securities Act of 1933*, as amended (the ''1933 Act''), and, subject to certain exceptions, may not be offered or sold in the United States. The Underwriters have agreed that they will not offer or sell the Offered Shares within the United States of America, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a U.S. person (as defined in Regulation S under the 1933 Act), except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the offering of the Offered Shares pursuant to this prospectus, an offer or sale of Offered Shares within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance with Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion on the basis of their assessment of the state of financial markets and also may be terminated on the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Offered Shares if any of such Offered Shares are purchased under the Underwriting Agreement.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that certificates evidencing the Offered Shares will be available for delivery at closing, which is expected to occur on or about December 17, 2001 but, in any event, not later than January 23, 2002.

Each of Scotia Capital Inc., National Bank Financial Inc. and CIBC World Markets Inc. (collectively, the ''Connected Underwriters'') is a subsidiary or an affiliate of a Bank Lender that is a lender to the Company under the New Credit Facilities. See ''Liquidity, Capital Resources and Outlook – Agricore United's Debt''. The net proceeds to the Company from the sale of the Offered Shares will be used to repay indebtedness under the Term Credit Facility, the Bridge Facility and, if there are any remaining proceeds, the Revolving Credit Facility. See ''Use of Proceeds''. Consequently, the Company may be a ''connected issuer'' or equivalent of each of the Connected Underwriters within the meaning of the securities legislation of certain provinces in Canada. The New Credit Facilities includes a covenant requiring the Company to use its best efforts to raise a minimum of $100 million by way of the issuance of equity or equity equivalents by July 31, 2002, 50% of the net proceeds of which is to be applied as a permanent reduction to the Term Credit Facility. However, the offering price, terms and conditions of the distribution of the Offered Shares hereunder were negotiated by the Underwriters and the Company without the involvement of the Bank Lenders.

Pursuant to the policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Underwriters may not, throughout the period of distribution, bid for or purchase Limited Voting Common Shares. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Limited Voting Common Shares. Such exceptions include a bid or purchase permitted under the by-laws and rules of the TSE relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. The Company has been advised that in connection with the offering and pursuant to the first-mentioned exception, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Limited Voting Common Shares at levels other than those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

RISK FACTORS

Investing in the Offered Shares involves a degree of risk. In addition to the other information contained in this prospectus, prospective investors should carefully consider the risk factors set out below in making an investment decision with respect to the Company and the Offered Shares.

Risks Related to the Company's Business

Poor Weather Conditions

Weather conditions are a significant operating risk affecting the Company. Poor weather conditions (whether too dry or too wet) may adversely affect farm output which, in turn, may adversely affect volume-related revenues earned by the Company's grain handling business in respect of both Board Grains and Non-Board Grains. Reduced grain volumes resulting from poor weather conditions may, in turn, affect the volumes and sales mix of crop production inputs sold by the Company and the revenues and profitability of the Company's other businesses because of the resulting pressure on farm incomes. Reduced grain handling, crop production input sales or other business revenues or profits resulting from poor weather conditions may have a material adverse effect on the Company's results of operations, business, prospects and financial condition, depending on the severity, duration and geographic area affected by the poor weather conditions. Western Canada experienced a severe drought during the summer of 2001 in southern portions of Saskatchewan and Alberta. The effect of this poor weather on the Company's results of operations for the 2002 fiscal year is discussed under ''Liquidity, Capital Resources and Outlook – Outlook''. Statistics Canada has estimated that total Canadian exports of grains and oilseeds for the industry as a whole will be approximately 15% lower for the 2001/2002 crop year than for the 2000/2001 crop year. The Company estimates that the impact of this reduced grain handling volume on the industry as a whole will be significantly in excess of this percentage because of the high fixed cost nature of the grain handling business. The Company estimates that, if total Canadian exports of grains and oilseeds for the industry as a whole were approximately 15% lower for the 2001/2002 crop year than for 2000/2001 crop year, then, based on current grain and oilseed prices, the EBIT from the Company's grain handling and merchandising business for the 2002 fiscal year, net of amounts recovered under the Company's integrated risk insurance, would be reduced by approximately $23 million. The actual decline in grain handling volumes as a result of the drought may be greater than Statistics Canada's estimates, and the effect on the Company's earnings may be greater than the Company estimates. Any decline in grain handling volume resulting from poor weather in the summer of 2001 or in future periods may have a material adverse effect on the Company's results of operations, business, prospects and financial condition.

Agricultural Commodity Prices

Prices of agricultural commodities are influenced by a variety of unpredictable factors which are beyond the control of the Company, including weather, plantings, government (Canadian and foreign) farm programs and policies, changes in global demand resulting from population growth and higher standards of living, and global productions of similar and competitive crops. Grain and oilseed prices are currently depressed, primarily as a result of foreign government subsidies and trade barriers. Grain and oilseed prices are a chief determinant of farm income levels and influence farmers' decisions regarding total planted acreage and the types of crops grown. Historically, farmers have tended to react to lower agricultural commodity prices by reducing expenditures on crop production inputs and other farm-related expenditures. As a result, lower or fluctuating commodity prices can affect the Company's sales mix, handling volumes, level of crop production input sales and revenues and profitability of the Company's businesses, which may have a material adverse effect on the Company's results of operations, business, prospects and financial condition.

The Company also faces the risk of commodity price declines on Non-Board Grains during the period between the purchase of such grains from producers and the sale of such grains by the Company. The Company may not completely hedge this exposure to such commodity price declines because of, among other things, the size of the forward contracts that would be involved and the fact that no regulated futures market exists for the certain of the special crops handled by the Company. See ''Business of the Company – Risk Management – Inventories''. To the extent that the Company does not adequately hedge its exposure to commodity price declines relating to its merchandising of Non-Board Grains, agricultural commodity price declines may have a material adverse effect on the Company's results of operations, business, prospects and financial condition.

Financial Leverage

After giving effect to the Merger, the pro forma total long-term debt of the Company as at July 31, 2001 was $346 million and pro forma total short term indebtedness was $473 million. The Company's pro forma financial leverage ratio as at July 31, 2001 was 62%. See ''Liquidity, Capital Resources and Outlook – Agricore United's Debt''. The increased financial leverage of the Company as a result of the Merger poses risks to the Company, including the risk that the Company may not generate sufficient cash to service the debt and to adequately fund the Company's operations and sustaining capital expenditure program. After giving effect to the Merger, the Company's pro forma debt service requirements during the year ended July 31, 2001 were $76 million. Debt service requirements in future periods could be higher, depending on interest rates and debt levels. If the Company's cash flow is not sufficient to service its debt and adequately fund its business, it may seek additional financing, dispose of assets or seek to refinance some or all of its debt. There is no assurance that any of these alternatives could be effected on satisfactory terms or at all. In addition, the Company's financial leverage could impair its ability to obtain additional financing in the future, which may reduce the Company's flexibility to respond to new business opportunities or changing business and economic conditions and may make it vulnerable in the event of a downturn in its business. While the Company is targeting a financial leverage ratio of 45% to 50%, there can be no assurance that this target will be achieved.

Additional Funding Requirements

The Company may require additional funding beyond the short and medium term, and there is no guarantee that such funding will continue to be available to the Company in the long term on terms acceptable to the Company or at all. The Bridge Facility, in the amount of $150 million, expires May 31, 2002 and the Revolving Credit Facility has an initial maturity of July 31, 2002. As at November 21, 2001, the aggregate outstanding indebtedness of the Company under the Bridge Facility and the Revolving Credit Facility was approximately $360 million. In addition, the New Credit Facilities include a covenant requiring the Company to use its best efforts to raise a minimum of $100 million by way of the issuance of equity or an equity equivalent by July 31, 2002, 50% of the net proceeds of which is to be applied as a permanent reduction to the Term Credit Facility. The availability of additional funding will depend on a number of factors, including the Company's future financial performance.

International Trade and Political Uncertainty

The world grain market is subject to numerous risks and uncertainties including risks and uncertainties related to international trade and global political conditions which can affect Canada's ability to compete in the world grain market and importing countries' ability to purchase grains and oilseeds. These factors affect Canada's export levels of both Board Grain and Non-Board Grains, which, in turn, affects the Company's grain handling volume. In addition, international agricultural trade is currently affected by high levels of subsidies, especially by the United States and European Union, and non-tariff barriers to support domestic production. Such subsidies interfere with normal market demand and supply forces and generally put downward pressure on agricultural commodity prices.

Competition

Competition in the industries in which the Company operates is strong. The Company is a relatively small player in the world agricultural industry. Certain of the Company's international competitors may have greater financial and capital resources than the Company. Competition in the grain handling industry continues to grow as a result of the expansion of historical participants and the addition of several new entrants. In addition, there is overcapacity in the grain handling industry as a result of the industry trend to replace conventional country elevators with HTEs. The Dominion Bond Rating Service has cited overcapacity as a major competitive concern in a number of its recent grain company ratings. Increasing competition in respect of the Company's other businesses is being fuelled by increasing competition in the international grain and oilseed markets in which the Company's customers participate. See ''Business of the Company – Competition''. Further deregulation of Canada's grain handling industry and rail transportation system may further stimulate competition in these industries.

Domestic Regulation

Canada's grain industry and rail transportation are highly regulated. Under the *Canadian Wheat Board Act*, the CWB is established as the central selling agency for the export of wheat and barley and the sale of domestic wheat and barley for human consumption. Since Board Grains account for approximately 60% of the grain handled by the Company, the size and scheduling of CWB's export program can significantly affect the quantity and timing of the Company's grain handling volumes.

Although Canada's grain handling and rail transportation system continues to be highly regulated, recent CWB reforms intended to lay the groundwork for a more commercial grain handling and transportation system will impact the competitive environment within Western Canadian agriculture. See ''Western Canadian Agriculture Industry – Western Canadian Grain Handling Industry – Recent Reforms''. These changes may affect the Company's grain handling market share. Any significant reduction in the Company's grain handling market share may have a material adverse effect on the Company's results of operations, business, prospects and financial condition. Past deregulation also has resulted in accelerated rail line abandonment, which may affect the scope and timing of the Company's country grain elevator consolidation plans.

Environmental Risks

The Company is subject to extensive federal, provincial and municipal environmental, health and safety laws and regulations. Failure to comply with such laws or regulations can subject the Company to significant liabilities, including fines and penalties. Although the Company believes that it is in substantial compliance with all material environmental, health and safety laws and regulations, there can be no assurance that the Company will not experience difficulties with its efforts to comply with such laws and regulations as they change in the future or that the Company's continued compliance efforts will not have a material adverse effect on the Company's results of operations, business, prospects and financial condition. The Company also anticipates increased expenditures of both a capital and an expense nature as a result of increasingly stringent laws and regulations relating to the protection of the environment and occupational health and safety.

The release of hazardous substances (*e.g.,* pesticides, herbicides, fertilizers and fuels) on or from properties previously or currently owned, leased, occupied or used by the Company or as a result of the Company's operations has resulted, and could further result, in the requirement to investigate, control and/or remediate such releases. For example, the Company's majority-owned subsidiary WCFL is responsible for decommissioning, remediating and reclaiming two of its former fertilizer manufacturing facilities. While the estimated costs of such decommissioning, remediation and reclamation has been provided for as a charge against earnings for the purposes of WCFL's financial statements, the actual costs may exceed such estimates which may materially reduce the value of the Company's investment in WCFL. The presence or release of hazardous substances could also have a material adverse effect on the Company's ability to sell its interest in its properties or could lead to claims by third parties as a result of the release of such substances. See ''Business of the Company – Environmental Regulation''.

Diseases and Other Livestock Industry Risks

The Company's investment in the hog industry is subject to the risks of disease, feed grain commodity price fluctuations, competition from present and future industry participants, public concerns over the environmental impact of large-scale hog production and any new environmental regulations that may result from such concerns. Swine diseases can have a debilitating effect upon a herd's productivity and make it more difficult to sell the offspring. If any of the hog barns in which the Company has an interest were affected by a swine disease outbreak, the unit would have to be shut down and a complete de-population for two or three months would be necessary to eliminate all traces of disease, thereby resulting in lost production days and lost revenue. Similarly, if Western Canada's livestock industry were affected by a disease outbreak, sales of the Company's livestock feed products could be materially adversely affected, which could have a material adverse effect on the Company's results of operations, business, prospects and financial condition.

Acceptance of Genetically Modified Products

Agricultural and food products handled and processed by the Company include genetically modified crops. The commercial success of these products will depend in part on domestic and foreign government and public acceptance of the cultivation, distribution and consumption of genetically modified products. If domestic or foreign government regulation or public attitudes were to substantially reduce the demand for genetically modified products, the Company's grain handling volumes could be adversely affected, which could have a material adverse effect on the Company's results of operations, business, prospects and financial condition.

Potential Labour Disruptions

A significant portion of the Company's employees are unionized and are governed by collective agreements. Agricore experienced a five-week work stoppage in 1999 involving some of its employees. The collective agreement signed after this work stoppage expires December 31, 2001. The collective agreement involving the port terminal services employees at the Port of Vancouver expired on December 31, 2000, but these employees are working under the terms of the expired collective agreement while negotiations for a new collective agreement continue. In addition, the Grain Services Union recently applied to be certified as bargaining agent for the country elevator and crop production services employees of UGG. Labour difficulties may arise at one or more of the Company's facilities or at other companies or government departments or agencies on which the Company depends for transportation or other services, such as the railway companies, the Grain Commission or the CWB. Any such labour difficulties could have a material adverse effect on the Company's results of operations, business, prospects and financial condition. In addition, the Company is subject to stringent and comprehensive labour laws and regulations in the jurisdictions in which it operates. Such regulations may become more stringent and comprehensive and result in modifications to the Company's facilities or practices involving additional costs.

Dependence on Key Personnel

The Company's future business, financial condition and operating results depend, in part, on its ability to attract and retain certain key personnel. Competition for highly skilled and other technical personnel is intense. There can be no assurance that the Company will be able to hire and retain such personnel at compensation levels consistent with the Company's existing compensation and salary structure. The Company's future business, financial condition and operating results also depend on the continued contributions of certain of the Company's executive officers and other key management and technical personnel, who generally do not have employment agreements with the Company, other than certain change of control agreements, and certain of whom would be difficult to replace. The Company does not maintain key person life insurance for any of its executive officers. The loss of the services of one or more of the Company's current executive officers or key personnel or the inability to continue to attract qualified personnel could have a material adverse effect on the Company's results of operations, business, prospects and financial condition.

Technological Advances

If the Company fails to develop new technology (including seed technology) and to continually upgrade its facilities and processes to reflect technological advances, such failure would negatively impact the competitive position of the Company's businesses, which may have a material adverse effect on the Company's results of operations, business, prospects and financial condition.

Credit Risk

Trade receivables generally comprise a significant amount of the Company's outstanding accounts receivable. The Company provides financing to some purchasers of crop production inputs directly rather than through UGG Financial and provides financing to certain purchasers of feed and livestock under its Unifinance secured financing program. As a result, the Company is exposed to the credit risk associated with certain of its customers. Any failure of a significant portion of such customers to fulfill their obligations to the Company on a timely basis, or at all, may have a material adverse effect on the Company's results of operations, business, prospects and financial condition.

Foreign Exchange Risk

A significant portion of the sales of the Company's own inventories of Non-Board Grains and terminal by-products (screenings and manufactured pellets) are sold into export markets, and such transactions are denominated primarily in U.S. dollars. As the Company's operations are almost entirely based in Canada, the bulk of its expenses are in Canadian dollars, and the Company reports its results in Canadian dollars. To the extent that the Company does not adequately hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the U.S. dollar may have a material adverse effect on the Company's results of operations, business, prospects and financial condition.

Risks Related to the Merger

Integration Risks and Costs

The Merger combines the businesses of two previously independent companies. While the Company estimates that the net synergies resulting from the Merger will be approximately $47 million annually and will be fully realized by July 31, 2004, the Company may fail to realize these net synergies. The Company's ability to realize these synergies, and the success of the Merger generally, will depend significantly on management's success in integrating the predecessor companies' operations, personnel and technology. The Company's management does not have experience integrating the businesses of two companies the size of UGG and Agricore and faces the difficult and potentially time-consuming task of implementing uniform standards, controls, procedures and policies across the Company's businesses. In addition, the information systems integration to be completed in connection with the Merger is complex. Integrating businesses can result in unanticipated operational problems, expenses and liabilities. In addition, to the extent that management is required to devote significant time, attention and resources to the integration of operations, personnel and technology as a result of the Merger, the Company's ability to service its current customers and to develop new products and services may be reduced, which may adversely affect the Company's revenues and profitability. Any failure to realize the anticipated net synergies from the Merger or any adverse effect on the Company's revenues or profitability resulting from integration difficulties may have a material adverse effect on the Company's results of operations, business, prospects and financial condition.

The Company estimates that one-time merger costs will total approximately $60 million, incurred as to $47 million in fiscal 2002, $11 million in fiscal 2003 and $2 million in fiscal 2004. Included in these costs are one-time expenses of approximately $7.5 million in respect of information technology conversion and related costs. Merger-related costs may exceed the Company's estimates. The Company may incur additional unanticipated unusual charges to operations in fiscal 2002 or later, in respect of integration costs. Such unusual charges may have a material adverse effect on the Company's results of operations.

Competition Matters Related to the Merger

In connection with the Merger, the Commissioner of Competition will shortly apply to the Competition Tribunal for a consent order requiring the divestiture of certain of the Company's country grain elevators and requiring the Company to abide by certain confidentiality provisions relating to CanAmera Foods. The Commissioner will also apply to the Competition Tribunal for an order requiring divestiture of a port terminal in Vancouver. The Company's proceeds from the sale of any assets required to be divested may be less than the Company would have received if these assets were sold in other circumstances. Pending a final order by the Competition Tribunal, the Commissioner will also seek, with the consent of the Company, two interim consent orders to, among other things, preserve and maintain the country elevators and port terminals that are subject to the Competition Tribunal proceedings. See ''Merger and Related Transactions – Description of the Merger Transactions''.

When presented with a draft consent order, the Competition Tribunal has the option of accepting and issuing the draft consent order as is, indicating changes that must be made in the draft order before the Competition Bureau will make the order or rejecting it. If the Competition Tribunal were to reject the draft consent order, the Company could face contested proceedings if it fails to reach an agreement with the Commissioner on a further draft consent order that is satisfactory to the Competition Tribunal.

In the Competition Tribunal proceedings relating to the Company's Vancouver port terminals, the Company will ask the Competition Tribunal also to consider whether a divestiture of only one of the elevators comprising part of the Pacific Elevators facility would be sufficient to address the substantial lessening of competition at the Port of Vancouver alleged by the Commissioner. The Competition Tribunal has the authority to order the divestiture of assets, the dissolution of the Merger, or make any other order with the consent of both parties. There can be no guarantee that the Competition Tribunal will accept that a divestiture of only one of the elevators comprising the Pacific Elevators facility would be an adequate remedy. Moreover, there can be no guarantee that the Competition Tribunal will accept that the divestiture of either the UGG Port Terminal or the Pacific Elevators facility will remedy the alleged substantial lessening of competition and may choose to issue a different order. Also, there can be no guarantee that the Competition Tribunal will accept that a divestiture of those country grain elevators that the Company has agreed to divest will remedy the alleged substantial lessening of competition. Similarly, there is no obligation on the Competition Tribunal to accept and issue the draft interim consent orders to, among other things, maintain and preserve the assets subject to the Competition Tribunal proceedings.

If the Competition Tribunal were to order additional or different asset divestitures or the dissolution of the Merger, the Company's results of operations, business, prospects and financial condition could be materially adversely affected.

Risks Related to the Limited Voting Common Shares

United Grain Growers Act

The Company is governed by the UGG Act. Under the UGG Act, members of the Company are entitled to elect 12 of the 15 directors of the Company. Shareholders of the Company are entitled to elect three of the 15 directors of the Company and, therefore, do not control the Company. Under the UGG Act, shareholders of the Company do not have the power to remove directors of the Company elected by members. Removing directors of the Company elected by shareholders of the Company requires a 75% Resolution: the affirmative vote of the holders of not less than 75% of the outstanding Limited Voting Common Shares at a special shareholders' meeting.

Members must approve any dissolution or liquidation of the Company in accordance with the provisions of the CBCA, as if members were a separate class of shareholder for the purposes of voting only. The UGG Act provides that the provisions of the CBCA relating to fundamental changes, including amendments to authorized share capital and the rights and restrictions attaching to each class and series of shares, amalgamations, arrangements, reorganizations, the sale of all or substantially all of the property of a corporation and class votes and dissent and appraisal remedies normally applicable to such fundamental changes, do not apply to the Company. To effect a fundamental change would require: (i) a 75% Resolution to continue the Company under the CBCA; or (ii) depending on the nature of the fundamental change, a 75% Resolution or the affirmative vote of holders of not less than two-thirds of the the outstanding Limited Voting Common Shares present and voting in person or by proxy at a special meeting of shareholders, and a special act of the Parliament of Canada to amend the UGG Act. To change the Company's governance structure would require a 75% Resolution and a special act of the Parliament of Canada to amend the UGG Act. The provisions of the UGG Act may discourage third parties from attempting to take control of the Company, which may not be in the best interests of the holders of Limited Voting Common Shares.

Market Price Fluctuations

The market price of the Limited Voting Common Shares could fluctuate significantly in response to various factors and events, including seasonal and quarterly variations in the Company's results of operations, developments in the Company's business or products, differences between the Company's actual financial or operating results following the completion of the Merger and those expected by investors and analysts, any failure of the Company to realize the anticipated net synergies from the Merger, changes in analysts' projections or recommendations, news announcements by the Company or its competitors, expectations concerning future agricultural commodity prices, changes in general economic or market conditions and trends, and world events.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Company, and Fasken Martineau DuMoulin LLP, counsel to the Underwriters, the Offered Shares, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the ''Tax Act'') and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. In the opinion of such counsel, the Offered Shares, if issued on the date hereof, would not be foreign property for the purposes of Part XI of the Tax Act.

LEGAL MATTERS

Certain legal matters in connection with the securities offered hereby will be passed upon for the Company by Davies Ward Phillips & Vineberg LLP, Toronto, Ontario, counsel for the Company, and for the Underwriters by Fasken Martineau DuMoulin LLP, Toronto, Ontario, counsel for the Underwriters. As of the date hereof, certain lawyers with Davies Ward Phillips & Vineberg LLP and Fasken Martineau DuMoulin LLP own, directly or indirectly, in the aggregate, less than one percent of the outstanding Limited Voting Common Shares.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of the Company are PricewaterhouseCoopers LLP, 2300 – One Lombard Place, Winnipeg, Manitoba. The former auditors of Agricore are Ernst & Young LLP, 2700, 360 Main Street, Winnipeg, Manitoba.

The transfer agent and registrar for the Limited Voting Common Shares is Computershare Trust Company of Canada at its principal office in Winnipeg, Manitoba.

PURCHASER'S STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment thereto. In several of the provinces, securities legislation further provides the purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus or any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of his or her province. A purchaser should refer to any applicable provisions of the securities legislation of his or her province for particulars of these rights or consult with a legal advisor.

INDEX TO FINANCIAL STATEMENTS

COMPILATION REPORT

To the Directors of United Grain Growers Limited:

We have reviewed, as to compilation only, the accompanying pro forma consolidated balance sheet of Agricore United as at July 31, 2001 and the pro forma consolidated statement of operations for the year ended July 31, 2001, which have been prepared for inclusion in the short form prospectus related to the issue and sale by United Grain Growers Limited and the sale by the selling shareholder of limited voting common shares of United Grain Growers Limited. In our opinion, the pro forma consolidated balance sheet and the pro forma consolidated statement of operations have been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

Winnipeg, Manitoba
December 11, 2001

(Signed) PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

AGRICORE UNITED

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

July 31, 2001

($000's except for share information)

	Agricore	UGG	Pro Forma Adjustments (see Note 2)		Agricore United Total
Assets					
Current Assets					
Cash and other short-term investments	$ 38,946	$ 779	$ —		$ 39,725
Accounts receivable and prepaid expenses	346,553	114,881	(14,342)	(iii)	447,092
Inventory	282,670	130,827	(9,094)	(i)	404,403
Future income taxes	1,706	10,111	—		11,817
	669,875	256,598	(23,436)		903,037
Capital Assets	525,974	291,137	(51,152)	(i)	765,959
Investments	27,051	13,895	(5,503)	(i)	35,443
Other Long-term Assets	18,945	41,652	(11,567)	(i)	49,030
Future Income Taxes	8,875	—	—		8,875
	$1,250,720	$603,282	$(91,658)		$1,762,344
Liabilities and Shareholders' & Members' Equity					
Current Liabilities					
Accounts payable and accrued expenses	$ 268,505	$109,126	$ 35,368	(i)	$ 398,657
			(14,342)	(iii)	
Dividends payable	—	5,308	—		5,308
Bank and other loans	330,712	59,983	—		390,695
Loans from members and staff	—	—	53,600	(iii)	53,600
Current portion of long-term debt	26,537	14,075	(8,332)	(iii)	32,280
Current portion of other long-term liabilities	1,692	—	—		1,692
	627,446	188,492	66,294		882,232
Loans from members and staff	45,268	—	(45,268)	(iii)	—
Long-term Debt	220,354	122,387	—		342,741
Other Long-term Liabilities	27,675	8,631	10,000	(i)	46,306
Future Income Taxes	14,965	49,621	(46,913)	(i)	17,673
	935,708	369,131	(15,887)		1,288,952
Shareholders' & Members' Equity					
Share capital – common shares	—	137,127	239,241	(ii)	376,368
– preferred shares	61,686	22,105	(61,686)	(iv)	22,105
Equity allocated to members	165,585	—	(165,585)	(iv)	—
Retained earnings	87,741	74,919	(87,741)	(iv)	74,919
	315,012	234,151	(75,771)		473,392
	$1,250,720	$603,282	$(91,658)		$1,762,344

See accompanying notes to unaudited pro forma consolidated financial statements.

AGRICORE UNITED

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

Year ended July 31, 2001

($000's except for share information)

	Agricore	UGG	Pro Forma Adjustments (see Note 3)		Agricore United Total
Sales and revenue from services	$3,151,752	$1,854,934	$(35,553)	(iv)	$4,971,133
Gross profit and revenue from services	351,228	222,860			574,088
Operating, selling and administrative expenses	(252,764)	(158,088)	(1,400)	(i)	(412,252)
Earnings before interest, taxes, depreciation & amortization and other income	98,464	64,772	(1,400)		161,836
Depreciation and amortization	(61,050)	(28,138)	6,115	(ii)	(83,073)
Interest and securitization expenses	(35,774)	(19,139)	—		(54,913)
Earnings from operations	1,640	17,495	4,715		23,850
Other income	812	(699)	—		113
Earnings before income taxes and unusual items	2,452	16,796	4,715		23,963
Unusual items	(39,032)	(8,158)	—		(47,190)
Recovery of (provision for) income taxes					
Unusual items	15,173	3,549	—		18,722
Earnings before unusual items	541	(441)	(3,686)	(iii)	(3,586)
Net earnings (loss) for the year	$ (20,866)	$ 11,746	$ 1,029		$ (8,091)

Earnings per Share (See Note 4)

See accompanying notes to unaudited pro forma consolidated financial statements.

AGRICORE UNITED

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

($000's except for share information)

1. BASIS OF PRO FORMA PRESENTATION

The unaudited pro forma consolidated financial statements of Agricore United have been prepared by management of Agricore United, in accordance with Canadian generally accepted accounting principles, to give effect to the acquisition of Agricore Cooperative Ltd. (''Agricore'') by United Grain Growers Limited (''UGG'').

The unaudited pro forma consolidated balance sheet of Agricore United as at July 31, 2001 has been prepared assuming the acquisition occurred on July 31, 2001, and it includes the audited consolidated balance sheet of Agricore as at July 31, 2001 and the audited consolidated balance sheet of UGG as at July 31, 2001.

The unaudited pro forma consolidated statement of operations for the year ended July 31, 2001 gives effect to the acquisition as if it had occurred on August 1, 2000. It is prepared from the audited consolidated statement of operations of Agricore for the year ended July 31, 2001, and the audited consolidated statement of operations for UGG for the year ended July 31, 2001.

The pro forma financial statements reflect the purchase by UGG of all the ownership interests of Agricore in exchange for limited voting common shares of UGG. The pro forma adjustments reflecting the acquisition using the purchase method of accounting are tentative and are based on available financial information and certain estimates and assumptions, which are described in the notes hereto, including assumptions relating to the allocation of the total purchase cost of the assets and liabilities of Agricore based upon preliminary estimates of their fair value. The actual adjustments to the consolidated financial statements of Agricore United will depend on a number of factors, including changes in the net book value and operating results of those entities between July 31, 2001 and November 1, 2001. Therefore, the actual allocation of the total purchase cost may differ from those assumptions as a result of valuations and other procedures currently being undertaken following the close of the transaction. Management believes that such assumptions provide a reasonable basis for presenting all of the significant effects of the transaction contemplated and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the pro forma condensed consolidated financial statements.

Accounting policies used in the preparation of the pro forma financial statements are consistent with those used by Agricore and UGG as described in the notes to their respective financial statements included elsewhere herein. There are no significant adjustments to accounting policies except as reflected in the pro forma adjustments.

The pro forma statement of operations for the year ended July 31, 2001 reflects the change in accounting by Agricore and UGG from the deferral to liability method of accounting for income taxes. The companies have adopted this change retroactively without restatement of individual prior periods.

These pro forma consolidated financial statements should be read in conjunction with the UGG and Agricore July 31, 2001 audited consolidated financial statements, presented elsewhere in the prospectus.

The pro forma consolidated financial statements are not intended to reflect the results of operations which would have actually resulted had the acquisitions and other pro forma adjustments been effected on the dates indicated. Further, the pro forma results of operations are not necessarily indicative of the results of operations that may be obtained by Agricore United in the future.

In the opinion of management, these pro forma financial statements contain all adjustments necessary for fair presentation.

2. PRO FORMA BALANCE SHEET ADJUSTMENTS

The unaudited pro forma consolidated balance sheet has been presented assuming that the following transactions had been completed effective July 31, 2001:

(i) The July 31, 2001 pro forma financial statements give effect to the allocation of the total purchase cost to the assets and liabilities of Agricore based on their relative fair values as set out below:

	Book Value	Adjustments	Fair Value
Net assets acquired:			
Current Assets	$ 669,875	$ (9,094)	$ 660,781
Capital Assets	525,974	(51,152)	474,822
Investments	27,051	(5,503)	21,548
Other Assets	27,820	(11,567)	16,253
	1,250,720	(77,316)	1,173,404
Current liabilities	(627,446)	(35,368)	(662,814)
Long term liabilities	(293,297)	(10,000)	(303,297)
Future income taxes	(14,965)	46,913	31,948
	$ 315,012	$(75,771)	$ 239,241

(ii) Consideration paid:

Common shares issued (20,492,305 @ $11.77/share)	$241,194
Cash – dissenting shareholders	138
Share issue costs ($3,750 net of taxes of $1,659)	(2,091)
	$239,241

The $11.77 per share value used to calculate the value of the share consideration for accounting purposes was estimated based on the weighted average closing price of UGG shares for the two trading days on either side of July 30, 2001, the date the Transaction was announced.

(iii) Certain reclassifications are required to conform Agricore's presentation with UGG's as follows:

Accounts receivable	$ (14,342)
Accounts payable and accrued expenses	$ (14,342)
Short-term loans – Loans from members and staff	$ 53,600
Current portion of long-term debt	$ (8,332)
Loans from members and staff	$ (45,268)

(iv) The ownership interests of Agricore are eliminated on combination as follows:

Share capital – preferred shares (Class B and C)	$ (61,686)
Equity allocated to members	(165,585)
Retained earnings	(87,741)
	$ (315,012)

3. PRO FORMA STATEMENT OF OPERATIONS ADJUSTMENTS

The pro forma consolidated statement of operations has been presented assuming that the following transactions had been effective on August 1, 2000:

(i) Operating, selling and administrative expenses have been increased by $1,400 for the year ended July 31, 2001, relating to additional capital taxes payable due to the change in Agricore's tax status resulting from its acquisition by UGG,

(ii) Depreciation and amortization expense is reduced by $6,115 for the year ended July 31, 2001 as a result of the reduction in Agricore's capital and intangible assets to fair value and the change to the liability method of accounting for income taxes in 2001,

(iii) Additional income taxes of $3,686 (including $1.6 million in large corporation capital tax) have been provided for the year ended July 31, 2001, as a result of the change in tax status and adjustments described in (i) and (ii) above, and

(iv) Inter company sales and purchases have been eliminated as follows:

Inter company sales	$(35,553)
Inter company purchases	$(35,553)

4. PRO FORMA EARNINGS PER SHARE

The weighted average number of UGG common shares outstanding for purposes of calculating the pro forma earnings per share has been increased by 20,492,305 shares to reflect the shares issued to acquire the ownership interests of Agricore. Earnings per share is as follows:

Earnings per share before unusual items, net of tax	$ 0.51
Unusual items per share, net of tax	(0.76)
Loss per share, net of tax	$ (0.25)

Earnings per share is derived by deducting annual dividends on UGG preferred shares from earnings for the year and dividing this total by the weighted average limited voting common shares outstanding during the year.

AUDITORS' REPORT

To the Directors of United Grain Growers Limited:

We have examined the consolidated balance sheets of United Grain Growers Limited as at July 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and consolidated statement of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2001 and 2000 and the results of its operations and the changes in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

Winnipeg, Canada
September 19, 2001
(except as to Note 21 which
is as of December 11, 2001)

UNITED GRAIN GROWERS LIMITED

CONSOLIDATED BALANCE SHEETS

As at July 31 (in thousands)

	2001	2000
Assets		
Current Assets		
Cash	$ 779	$ 13,340
Accounts receivable and prepaid expenses *[Note 4]*	114,881	128,126
Inventories *[Note 5]*	130,827	106,604
Future income taxes *[Note 15]*	10,111	—
	256,598	248,070
Capital Assets *[Note 6]*	291,137	307,202
Other Assets *[Note 7]*	55,547	44,159
	$603,282	$599,431
Liabilities and Shareholders' Equity		
Current Liabilities		
Bank and other loans *[Note 9]*	$ 59,983	$ 66,352
Accounts payable and accrued expenses	109,126	91,440
Dividends payable	5,308	5,315
Current portion of long-term debt *[Note 10]*	14,075	14,072
	188,492	177,179
Long-term Debt *[Note 10]*	122,387	136,198
Employee Future Benefits *[Note 8]*	8,631	8,293
Future Income Taxes *[Note 15]*	49,621	51,488
Shareholders' Equity		
Share capital *[Note 14]*	159,232	159,340
Retained earnings	74,919	66,933
	234,151	226,273
	$603,282	$599,431

Approved by the Board:

(Signed) TED ALLEN
Director

(Signed) TERRY YOUZWA
Director

UNITED GRAIN GROWERS LIMITED

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

For the years ended July 31 (in thousands)

	2001	2000
Sales and revenue from services *[Note 11]*	$1,854,934	$1,779,789
Gross profit and revenue from services	222,161	203,071
Operating, general and administrative expenses	(158,088)	(154,250)
Earnings before interest, taxes, depreciation & amortization	64,073	48,821
Depreciation and amortization	(28,138)	(26,380)
Operating income	35,935	22,441
Interest and securitization expenses *[Note 13]*	(19,139)	(17,350)
Earnings before income taxes and unusual items	16,796	5,091
Unusual items *[Note 19]*	(8,158)	(595)
Recovery of (provision for) income taxes *[Note 15]*		
Unusual items	3,549	587
Earnings before unusual items	(441)	(2,900)
Net earnings for the year *[Note 1]*	11,746	2,183
Retained earnings, beginning of year		
As previously reported	66,933	74,198
Accounting changes *[Note 20]*	1,498	(4,323)
As restated	68,431	69,875
Premium on shares repurchased	(43)	(20)
Dividends	(5,215)	(5,105)
Retained earnings, end of year	$ 74,919	$ 66,933

UNITED GRAIN GROWERS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended July 31 (in thousands)

	2001	2000
Cash flows from operating activities		
Net earnings for the year	$ 11,746	$ 2,183
Adjustments for:		
Depreciation and amortization	28,138	26,380
Employee future benefits	(1,662)	(644)
Future income taxes and investment tax credits (recovery) expense	(4,343)	4,066
Equity earnings from investments, net of dividends	(820)	(1,241)
Loss (gain) on disposal of capital assets	2,264	(1,796)
Loss from unusual items net of tax	4,609	8
Cash flow provided by operations *[Note 1]*	39,932	28,956
Changes in non-cash working capital	8,375	(19,832)
	48,307	9,124
Cash flows from investing activities		
Business acquisitions *[Note 3]*	(11,342)	(5,222)
Capital asset expenditures	(18,316)	(48,361)
Proceeds from disposal of capital assets, net	672	2,206
Increase in other assets	(5,484)	(7,439)
	(34,470)	(58,816)
Cash flows from financing activities		
Increase (decrease) in bank and other loans	(6,369)	54,658
Decrease in long-term debt	(13,808)	(73)
Share capital issued (redeemed), net	(151)	336
Dividends	(5,315)	(5,301)
	(25,643)	49,620
Change in cash position	(11,806)	(72)
Cash, at beginning of year	13,340	13,443
Debt assumed	(755)	(31)
Cash, at end of year	$ 779	$ 13,340
Supplementary Disclosure of Cash Flow Information		
Cash (paid) recovered during the year		
Interest	$(17,838)	$(16,753)
Income taxes	$ (8,174)	$ 1,427

UNITED GRAIN GROWERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. EARNINGS PER SHARE

	For the years ended July 31	
	2001	**2000**
Earnings per share (before unusual items, net of tax)	$ 0.91	$ 0.06
Unusual Items per share, net of tax (note 19)	(0.28)	—
Earnings per share	$ 0.63	$ 0.06

Earnings per share is derived by deducting annual dividends on preferred shares from earnings for the year, and dividing this total by the weighted average of limited voting common shares outstanding during the year.

	For the years ended July 31	
	2001	**2000**
Cash flow provided by operations per share (before unusual items net of tax)	$ 2.31	$ 1.66
Cash flow from unusual items per share, net of tax	—	—
Cash flow provided by operations per share	$ 2.31	$ 1.66

Cash flow per share is derived by deducting annual dividends on preferred shares from cash flow provided by operations, and dividing this total by the weighted average of limited voting common shares outstanding during the year.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada which require United Grain Growers Limited (''the Company'') to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses and disclosures of contingencies. Actual results could differ from these estimates.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries:

– Unifeed Limited and its wholly owned subsidiary Hart Feeds Limited

– Big Yield Ag Services Inc.

Revenue recognition

Revenue is recognized upon shipment of goods or provision of services.

Derivative financial instruments

Derivative financial instruments are used by the Company to reduce its exposure to fluctuations in interest rates, foreign currency exchange rates and commodity prices. In the normal course, the Company does not hold or issue derivative financial instruments for derivative trading purposes.

Interest Rate Swap Contracts – The differentials to be received or paid under interest rate contracts are recognized in income over the life of the contracts as adjustments to interest expense. Gains and losses on termination of contracts are deferred and amortized to income over the remaining life of the contract or the related debt, whichever is earlier.

Foreign Exchange Contracts – Gains and losses on contracts designated as hedges of existing assets and liabilities are used to offset gains and losses resulting from the underlying hedged transactions. The foreign exchange contracts and the underlying hedged assets are marked to market monthly and the resulting gains and losses are netted and recognized as a current period transaction.

Inventories

Amounts receivable in respect of grain held for the account of The Canadian Wheat Board (''Board''), in accordance with the terms of a handling agreement between the parties, are valued on the basis of Board initial prices less handling costs.

Company-owned grain inventories include both hedged and non-hedged commodities. Hedgeable grain inventories are valued on the basis of closing market quotations less handling costs and also reflect gains and losses on open grain purchase and sale contracts to the extent these positions have been hedged. Non-hedgeable grains are valued at the lower of cost or market.

Farm supply, seed, feed and livestock inventories are valued at the lower of cost or net realizable value.

Capital assets

Capital assets are recorded at cost, which includes interest incurred on major construction projects, reduced by investment tax credits claimed. The Company uses a combination of straight line and diminishing balance methods of providing depreciation over the estimated useful lives of the assets as follows:

– Country elevator, feed mill and warehouse properties and equipment – 4% to 10% Diminishing Balance

– High-throughput elevator properties and equipment – 2% to 5% Straight Line

– Terminal elevator properties and equipment – 2% to 10% Straight Line

– Specified computer equipment – Three years Straight Line

– Other equipment, furniture and fixtures – 20% Diminishing Balance

Other assets

Deferred Charges – Deferred systems development costs related to developing major new computer systems are amortized over a three-year period.

Deferred varietal development costs incurred under agreements for the development of proprietary seed varieties are amortized over a four-year period.

Deferred swine breeding development costs related to the establishment of Unipork Genetics™, a swine breeding operation, are amortized over five years.

Deferred pension costs represent pension funding in excess of pension costs.

Deferred financing costs related to the acquisition of a long-term credit facility are amortized over the term of the facility.

Trade Investments – Trade investments include the Company's non-controlling interest in The Puratone Corporation and 50% ownership in Benson-Quinn – GMS Inc. These investments are accounted for using the equity method. The Company's non-controlling interest in Prince Rupert Grain Terminal is recorded at nominal value. All other trade investments are recorded at cost.

Intangible Assets – Intangible assets include contracts, customer and supplier lists, leases and goodwill, which are amortized on a straight-line basis over ten years. Goodwill represents the excess of the purchase price over the fair values assigned to identifiable net assets acquired. The Company assesses whether there has been a permanent impairment in the carrying value of goodwill based on the fair value of the related business operations. Any resulting change would be charged to income in the current year.

Employee future benefits

The Company provides two pension plans for employees (note 8). Other post-employment benefits, largely in respect of extended health plans and life insurance, are also provided to eligible employees upon retirement. The cost of all future benefits is accrued in the period in which the employee services are rendered, based on actuarial valuations.

Pension fund assets are valued at market values. Any excess net actuarial gains or losses over 10% of the greater of the accrued benefit obligation and the market value of plan assets, together with the transitional asset that resulted on the adoption of the new accounting standard, are being amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan.

Income taxes

Income taxes are provided for using the asset and liability method of accounting. Under this method, future income taxes are recognized for temporary differences between the accounting and tax bases of the Company's assets and liabilities, and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. For fiscal 2000, income taxes were provided for using the deferral method.

3. BUSINESS ACQUISITIONS

In February of 2001, UGG's wholly owned subsidiary, Unifeed Limited, acquired the net assets and business operations of Pro Form Feeds, an operating division of Agro Pacific Industries Ltd. Also in February of 2001, the Company acquired 100% of the shares of Big Yield Ag Services Inc., a crop input retailer located in Wilkie, Saskatchewan. The acquisitions are accounted for using the purchase method and the results of operations of these businesses are included in the consolidated financial statements from the respective dates of acquisition.

These transactions, along with the business acquisitions made in 2000, are summarized as follows:

	As at July 31	
	2001	2000
	(in thousands)	
Net assets acquired		
Receivables, inventories and capital assets	$11,859	$4,874
Intangible assets	238	561
Liabilities assumed	—	(182)
Cash position assumed	(755)	(31)
Cash consideration	$11,342	$5,222

4. ACCOUNTS RECEIVABLE

In prior years, the Company had an agreement with a certain financial institution to sell, on a limited recourse basis, up to $150 million of undivided interests in certain trade accounts receivable on a revolving basis (''securitized amounts''). The Company chose not to extend this agreement, which expired on October 31, 2000. In 2000, accounts receivable were reported net of securitized amounts of $148.5 million less a holdback of $13.5 million. The related net cost up to October 31,2000 has been included in interest and securitization expenses in the consolidated statements of earnings and retained earnings.

On February 5, 2001, the Company finalized an agreement with another financial institution to provide credit for qualifying agricultural producers. The agreement with the financial institution is effective for a period of 5 years and may be renewed for a further 5 year period or terminated at an earlier date by either party.

On March 29, 2001, the Company sold an initial portfolio of trade accounts receivable to the financial institution for net proceeds of $21.5 million. On June 23, 2001, the Company sold a second portfolio of trade accounts receivable for net proceeds of $14.9 million.

Under the terms of the sale agreements, the Company has agreed to indemnify the financial institution for a portion of future losses incurred on the portfolio to a maximum of 5% of the net proceeds received on the sale. No indemnity has been paid or accrued at July 31, 2001.

Concentrations of credit risk on trade accounts receivable and notes due from customers are indicated in the following table by the percentage of the total balance receivable from customers in the specified categories.

	As at July 31	
	2001	**2000**
Grain Handling	20%	9%
Crop Production Services	30%	77%
Other	50%	14%

5. INVENTORIES

Grain held for the account of The Canadian Wheat Board represents the amount receivable in respect of grain purchased on the Board's behalf. The Company has an agreement with a financial institution (''the Purchaser'') under which the Company may sell, with limited recourse on a revolving basis up to $150 million, the right to receive proceeds arising from the delivery of grains that are held in accordance with a grain handling contract between the Company and The Canadian Wheat Board (''securitized amounts''). The agreement with the Purchaser expires on July 31, 2002, although it may be terminated at an earlier date by either party. Under the terms of the agreement, the Company is responsible for fulfilling its obligations under the grain handling contract entered into with The Canadian Wheat Board.

The grain held for the account of The Canadian Wheat Board is reported net of securitized amounts of $24.8 million (2000 – $44.5 million). The net cost of these transactions is included in interest and securitization expenses in the consolidated statements of earnings and retained earnings.

Inventory is comprised of the following:

	As at July 31	
	2001	**2000**
	(in thousands)	
Grain held for the account of the Canadian Wheat Board, net	$ 8,426	$ 18,006
Company-owned grain	43,041	18,569
Farm supplies, seed, feed and livestock	79,360	70,029
	$ 130,827	$106,604

6. CAPITAL ASSETS

	As at July 31			
	2001		**2000**	
	Cost	**Accumulated Depreciation**	**Cost**	**Accumulated Depreciation**
	(in thousands)			
Country elevator, feed mill and warehouse properties and equipment	$ 323,568	$110,877	$326,770	$ 99,611
Terminal elevator properties and equipment	122,100	85,156	121,814	82,671
Other equipment	76,815	35,313	72,840	31,940
	$ 522,483	$231,346	$521,424	$214,222
Net book value	$291,137		$307,202	

7. OTHER ASSETS

	As at July 31	
	2001	2000
	(in thousands)	
Deferred Charges		
Systems development costs	$ 4,358	$ 2,508
Varietal development costs	2,389	2,056
Swine breeding development costs	53	598
Pension costs	24,877	16,067
Financing and other costs	1,753	849
Trade Investments	13,895	13,033
Intangible Assets	8,222	9,048
	$55,547	$44,159

8. EMPLOYEE FUTURE BENEFITS

The Company maintains two pension plans for employees. One of these plans was converted from a defined benefit plan to a defined contribution whereby all contributions for services after the conversion date were paid into the member's defined contribution account. At the time of the conversion, active members were also given a one-time option to transfer their accrued pension benefit to the defined contribution account. A defined benefit component of the plan remains, covering a closed group of members.

The second plan is a defined benefit pension plan. This plan and the remaining defined benefit component of the converted plan, provide pensions based on length of service and final average earnings.

The Company's net benefit plan income is as follows:

	As at July 31	
	2001	2000
	(in thousands)	
Pension Benefits		
Current service cost	$ (249)	$ (124)
Interest cost	(5,171)	(7,089)
Expected return on plan assets	8,308	9,737
Amortization of transitional asset	1,536	—
Amortization of gains	—	555
Settlement gain	6,810	10,405
Net benefit plan income (defined benefit component)	$11,234	13,484
Defined contribution component expense	(2,423)	(2,435)
Total Net Benefit Plan Income	$ 8,811	$11,049

	As at July 31	
	2001	2000
	(in thousands)	
Other Future Benefits		
Current service cost	$ (257)	$ (268)
Interest cost	(570)	(527)
Amortization of gains	22	—
Total Net Benefit Expense	$ (805)	$ (795)

Information about the Company's defined benefit pension arrangements, in aggregate, is as follows:

	As at July 31, 2001	
	Pension Benefits	Other Future Benefits
	(in thousands)	
Accrued Benefit Obligation		
Balance, beginning of year	$ 78,141	$8,293
Current service cost	307	257
Interest cost	3,539	570
Benefit Improvement	493	—
Benefits paid	(8,184)	(467)
Actuarial loss	10,799	(22)
Settlement	(64,857)	—
Balance, end of year	$ 20,238	$8,631

	As at July 31, 2001	
	Pension Benefits	Other Future Benefits
	(in thousands)	
Plan Assets		
Fair value, beginning of year	$118,507	$ —
Actual return on plan assets	2,640	—
Employer contributions to:		
Defined contribution component	(2,371)	—
Other Benefits	—	467
Employee contributions	97	—
Benefits paid	(7,532)	(467)
Settlement	(58,047)	—
Fair value, end of year	$ 53,294	$ —
Funded Status		
Plan surplus (deficit)	$ 33,056	(8,628)
Unamortized transitional asset	(8,305)	—
Unamortized net gains	126	—
Deferred Pension Asset (Liability)	$ 24,877	(8,628)

The significant weighted-average assumptions used in measuring the Company's pension and other obligations as at July 31, 2001 were as follows:

	Pension Benefits	Other Future Benefits
Discount rate	7.05%	6.50%
Expected long-term rate of return on plan assets	7.50%	—
Rate of compensation increase	5.00%	5.00%

As at July 31, 2000 (in thousands)

As permitted under the new accounting recommendations, prior year financial statements have not been restated. Accordingly, the following amounts and disclosures reflect the former recommendations of the CICA:

Actuarial present value of accrued pension obligations	$78,141
Smoothed market value of pension fund assets	93,406

9. BANK AND OTHER LOANS

The Company has a revolving credit facility based on bankers acceptances and prime rates with three Canadian chartered banks for up to the lesser of $150 million or a margin based on qualifying receivables and inventories. Inventories and certain accounts receivable have been pledged as security for bank loans.

10. LONG-TERM DEBT

Long-term debt is comprised of the following:

	As at July 31	
	2001	2000
	(in thousands)	
Term loan	$ 136,000	$150,000
Other long-term debt	462	270
Total term debt	136,462	150,270
Less: current portion	14,075	14,072
	$ 122,387	$136,198

The floating rate term loan of $86 million (2000 – $100 million) at 5.62% (2000 – 6.99%) is repayable in equal annual installments of $14 million which commenced in 2001, with the balance payable in 2006. The additional term loan of $50 million carries an average fixed interest rate to maturity of 7.25%, repayable in 2006. These loans are secured by a demand debenture for $150 million, which includes a fixed charge on the Vancouver terminal facility and a floating charge over all other assets. Other long-term debt is repayable within two years. The fair value of long-term debt approximates its carrying amounts.

Interest rate swaps of $86 million at 8.99% (2000 – $100 million at 8.87%) with Schedule One banks are used to hedge the floating interest rate component of long-term debt. The fair value of the interest rate swap obligation is $6.57 million as at July 31, 2001 (2000 – $5.24 million).

11. SALES AND REVENUE FROM SERVICES

Sales and revenue from services include export sales of $445,583,000 (2000 – $482,655,000). It also includes the sales value of grain purchased for the account of and delivered to The Canadian Wheat Board of $527,413,000 (2000 – $536,785,000).

12. RELATED PARTY TRANSACTIONS

The Company has transactions with related parties in the normal course of operations at commercial amounts and terms. Related parties include Prince Rupert Grain, The Puratone Corporation (note 2), and Archer Daniels Midland Company, and its respective subsidiaries and associated companies.

Total sales to related parties were $60,824,000 (2000 – $40,406,000) and total purchases from related parties were $35,312,000 (2000 – $12,192,000). As at July 31, 2001, accounts receivable from and accounts payable to related parties totalled $880,000 (2000 – $1,375,000) and $235,000 (2000 – $7,000), respectively.

13. INTEREST AND SECURITIZATION EXPENSES

	As at July 31	
	2001	**2000**
	(in thousands)	
Interest on:		
Long-term debt	$12,010	$12,395
Short-term debt	6,353	2,032
Securitization expenses	3,725	6,255
CWB carrying charge recovery	(2,949)	(3,332)
	$19,139	$17,350

14. SHARE CAPITAL

Membership

The Company is governed by the United Grain Growers Act under which it has both members and shareholders. Members are customers of the Company and are entitled to elect 12 directors, who must be members of the Company. The Company's limited voting common shareholders are entitled to elect three directors, who cannot be members. Members who are not shareholders are not entitled to participate in any profit or distribution of the Company.

Employee share purchase plan

Under the terms of the Company's employee share purchase plan (ESPP), qualifying employees may contribute from 1% to 7% of their basic earnings to the ESPP, with the Company contributing an amount equal to 50% of all employee contributions. Contributions are used to acquire shares, either from the open market or from the Company, based on share trading prices on The Toronto Stock Exchange.

Executive stock option plan

Under the terms of the executive stock option plan eligible executives of the Company are entitled to receive options to acquire limited voting common shares. The following stock options are outstanding at July 31, 2001:

Date Granted	Number of Shares	Exercise Price	Expiry Date	% Vested
Dec. 13/96	98,090	$10.20	2006	100%
Sept. 18/97	91,285	$13.10	2002	100%
Sept. 17/98	132,653	$11.50	2008	60%

Member share purchase plan

Under the Company's member share purchase plan (MSPP), eligible members may contribute to the MSPP by way of a cash payment or cash ticket deduction payment. Contributions and dividends paid are used to acquire shares, either from the open market or from the Company, based on share trading prices on The Toronto Stock Exchange.

Directors' share compensation plan

Under the Directors' Share Compensation Plan (DSCP), the Company pays its Directors a minimum of 25% and a maximum of 50% of their annual compensation through the issuance from treasury of limited voting common shares, based on share trading prices on The Toronto Stock Exchange.

Normal Course Issuer Bid

The Company purchased 64,100 shares under a normal course issuer bid program on the Toronto Stock Exchange which commenced on June 28, 2000 and terminated on June 27, 2001.

	As at July 31			
	2001		2000	
	# of shares	Value	# of shares	Value
	(in thousands, except number of shares)			
Authorized				
Preferred shares, issuable in series	unlimited		unlimited	
Limited voting common shares	unlimited		unlimited	
Issued and Outstanding				
Series ''A'' convertible preferred shares non-voting, $1 dividend per share, cumulative, convertible (1:1 basis), callable at $24				
Opening balance	1,105,268	$ 22,105	1,105,442	$ 22,109
Converted to common shares	(17)	—	(174)	(4)
Closing balance	1,105,251	$ 22,105	1,105,268	$ 22,105
Limited voting common shares				
Opening balance	16,820,506	$137,235	16,779,886	$136,875
Issued				
Upon conversion of preferred shares	17	1	174	4
Executive stock option plan	18,000	155	53,274	458
Directors share compensation plan	12,001	110	5,472	47
Normal course issuer bid	(45,800)	(374)	(18,300)	(149)
Closing balance	16,804,724	$137,127	16,820,506	$137,235
Total		$159,232		$159,340

The issued and outstanding common shares along with securities convertible into common shares are as follows:

	As at July 31	
	2001	2000
Issued and outstanding limited voting common shares	16,804,724	16,820,506
Securities convertible into common shares:		
Series ''A'' Convertible Preferred Shares non-voting, $1 dividend per share, cumulative, convertible (1:1 basis), callable at $24	1,105,251	1,105,268
Stock options	322,028	368,794
	18,232,003	18,294,568

15. INCOME TAXES

As discussed in note 20, the Company adopted the new CICA recommendations on accounting for income taxes on August 1, 2000. The standard was applied retroactively, however as permitted under the new rules, comparative information has not been restated.

(a) The Company's income tax recovery (expense) consists of the following:

	As at July 31	
	2001 Liability Method	**2000 Deferred Method**
	(in thousands)	
Current Income Tax Expense	$(4,971)	$ 969
Future Income Tax (Expense) Benefit		
On unusual items	3,549	587
Other	4,530	(3,869)
Income tax recovery (expense)	$ 3,108	$(2,313)

(b) The Company's effective tax rate is determined as follows:

	As at July 31	
	2001 Liability Method	**2000 Deferred Method**
	(in thousands)	
Income Tax expense at a combined statutory rate of 43.6% (2000 – 44.8%)	$(3,773)	$(2,013)
Manufacturing & Processing Deduction	539	555
Large Corporation Capital Tax	(993)	(1,100)
Tax Paid Equity Earnings	187	585
Rate Reduction on Future Income Taxes	6,456	—
Miscellaneous	692	(340)
Provision for Income Taxes	$ 3,108	$(2,313)

(c) Significant components of the Company's future tax assets and liabilities at July 31, 2001 are as follows:

	As at July 31, 2001
	(in thousands)
Future Tax Assets	
Reserves & other liabilities	$10,676
Other post retirement benefits	3,193
Other temporary differences	1,071
	$14,940
Future Tax Liabilities:	
Capital assets	$26,004
Trade investments	16,369
Deferred pension costs	9,453
Other deferred charges	1,356
Other	1,268
	$54,450
Net Future Tax Liability	$39,510
Comprised of:	
Future Tax asset – current	10,111
Future Tax Liability – non-current	49,621

16. COMMITMENTS AND CONTINGENCIES

The Company has operating leases, with terms ranging up to 20 years, for office premises and equipment, various storage facilities and sites, application equipment and licensed vehicles under leases. Future minimum payments under these leases are as follows:

	As at July 31
	(in thousands)
2002	$ 6,394
2003	4,991
2004	3,592
2005	2,692
2006	2,281
After 2006	1,314
	$21,264

The Company is contingently liable under guarantees given to third-party lenders who have provided long-term financing to certain independent producers. These guarantees total approximately $2.8 million as at July 31, 2001 (2000 – $3.2 million).

Under the terms of an agreement with a financial institution (as described in note 4), the Company agreed to indemnify the financial institution for a portion of future losses incurred on an accounts receivable portfolio to a maximum limit of 5% of outstanding credit. At July 31, 2001 the accrual for the contingent portion on the outstanding indemnity is $53,000.

As of July 31, 2001 there are claims against the Company in varying amounts for which no provisions in the financial statements are considered necessary. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims – but management believes that any such amounts would not have a material impact on the business or financial position of the Company – or the occurrence of the confirming future event is not determinable.

17. SEGMENT INFORMATION

The Company has four reportable business segments operating primarily in Western Canada: Grain Handling, Crop Production Services, Livestock Services, and Farm Business Communications. Grain Handling revenues are earned from the sourcing of grain from producers for delivery to end-users. Crop Production Services revenues are earned from the production and sale of crop inputs products and services through retail centres and country elevators. Livestock Services revenues are derived from the manufacture and sale of livestock feed and related services, and from swine breeding stock production and marketing. Farm Business Communications revenues are earned from subscription and advertising sales through the publication of farm magazines and periodicals.

Segment information is summarized as follows:

	As at July 31	
	2001	2000
	(in thousands)	
Gross profit and revenue from services:		
Grain Handling	$104,468	$ 98,052
Crop Production Services	65,813	62,071
Livestock Services	41,518	31,579
Farm Business Communications	9,167	9,341
Corporate and Other	1,195	2,028
	$222,161	$203,071
Operating income (loss):		
Grain Handling	$ 27,866	$ 15,321
Crop Production Services	13,415	12,452
Livestock Services	11,358	9,120
Farm Business Communications	1,360	1,465
Corporate and Other	(18,064)	(15,917)
	$ 35,935	$ 22,441
Assets:		
Grain Handling	$273,949	$281,394
Crop Production Services	163,768	183,302
Livestock Services	110,153	86,412
Farm Business Communications	697	552
Corporate and Other	54,715	47,771
	$603,282	$599,431

18. FINANCIAL INSTRUMENTS

Forward foreign exchange contracts

Foreign currency amounts are translated at the balance sheet date. The ''sell'' amounts represent the Canadian dollar equivalent of commitments to sell foreign currency.

	As at July 31	
	Type	12 mos
	(in thousands)	
US dollars	Sell	$87,563
Deutschmark	Sell	$ 1,375
Euro	Sell	$ 4,823

Fair values of financial assets and liabilities

The following summarize the major methods and assumptions used in estimating the fair values of financial instruments:

– short-term financial instruments are valued at their carrying amounts included in the balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments.

– rates currently available to the Company for long-term debt with similar terms and remaining maturities are used to estimate the fair value of existing borrowings as the present value of expected cash flows.

– the fair value of derivatives generally reflects the estimated amounts that the Company would have to pay, or would receive, upon termination of the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts.

– interest rate swaps of $10 million at an effective rate of 6.88% (2000 – $20 million at 6.85%), which mature over a two-year period ending June 28, 2002, are used to hedge the floating interest rate component of bank and other loans and the floating discount rate on securitized amounts. The fair value of the interest rate swap obligations is $(159,328) as at July 31, 2001 (2000 – $19,000). Interest rate swaps are with Schedule One banks.

19. UNUSUAL ITEMS

July 31, 2001

i) Under the terms of a comprehensive restructuring plan, which is expected to be fully implemented by the end of fiscal 2004, the Company will substantially complete the rationalization of its country operations. The related provision of $15 million ($8.8 million after tax) represents the estimated asset write-downs, dismantling costs and other cash expenses at 47 locations.

ii) During the year, the Company approved the purchase of non-participating insurance contracts on behalf of the retirees in one of its defined benefit plans (note 8). To facilitate the purchase, a lump sum transfer from the defined benefit plan assets, representing the partial settlement of the plan's obligations was made on July 31, 2001. As a result of this partial settlement, a related proportion of previously unamortized gains could no longer be deferred and accordingly, the Company recognized a non-cash increase in the deferred pension asset and a related non-cash gain on settlement of $6.8 million ($4.2 million after tax).

July 31, 2000

i) The Company converted one of its defined benefit plans to a defined contribution plan effective January 1, 1999. During fiscal 2000, a lump sum transfer was made to the defined contribution account, representing the aggregate liability due to members electing to transfer their accrued pension benefit to the new account. As a result of this settlement of part of the plan's defined benefit obligations, a related proportion of previously unamortized experience gains was recognized as a non-cash increase in the deferred pension asset. Accordingly, an amortization adjustment of $10.4 million ($5.67 million after-tax) was recorded.

ii) The Company underwent a restructuring plan during fiscal 2000 to rationalize its operations at 43 locations. A provision of $11 million ($5.68 million after-tax) was booked representing estimated asset write-downs, dismantling costs and other cash expenses.

20. ACCOUNTING CHANGE

a) *Future Income Taxes*

Effective August 1, 2000, the Company changed its accounting policy and adopted the new CICA recommendations on accounting for income taxes. The new standard requires the implementation of the asset and liability method of accounting for income taxes (Note 2). The financial statements for the period ended July 31, 2001 have been prepared on the new basis without restatement of the prior period. The retained earnings as at August 1, 2000 have increased by $1.5 million with a corresponding net decrease to future income taxes.

b) *Employee Future Benefits*

Effective August 1, 1999, the Company changed its accounting policy for other post-employment benefits to recognize the cost of these benefits as a charge to income in the period in which the employee services are rendered. The change was applied retroactively without restatement, resulting in a charge to retained earnings at August 1, 1999 of $4.3 million (net of future taxes of $3.6 million).

Commencing August 1, 2000, the Company changed its accounting policy and adopted the new CICA recommendations on accounting for employee future benefits (note 2). The requirements of the standard were adopted on a prospective basis.

21. SUBSEQUENT EVENT

a) On July 27, 2001, UGG's Board of Director's approved a plan to combine with Agricore Cooperative Ltd. (''Agricore'') to form a company that will operate as Agricore United. The plan was publicly announced on July 30, 2001. On August 30, 2001, Agricore's shareholders and farmer-elected delegates voted in favour of the transaction. On November 1, 2001, UGG issued 20,492,395 limited voting common shares to Agricore stakeholders in exchange for their economic interest in Agricore.

b) In connection with the merger, the Company obtained credit facilities from three Canadian chartered banks, consisting of the following:

(i) a $250 million revolving credit facility at variable rates; maturing July 31, 2002;

(ii) a $217.7 million non-revolving term credit facility to refinance bank term debt of UGG and Agricore existing at the time of the merger; quarterly repayment terms $5.65 million with the balance due on December 31, 2003; and

(iii) a $150 million bridge facility at variable rates, revolving credit terms which expires on May 31, 2002.

c) The Company filed a short form prospectus dated December 11, 2001 in connection with an offering of 13 million limited voting common shares at $8.00 per share. In connection with the offering, 6,290,641 limited voting common shares are being sold by a selling shareholder, Agricore Assisted Sales Corporation and 6,709,359 limited voting common shares are being sold by the Company from treasury.

AUDITORS' REPORT

To the Directors of Agricore Cooperative Ltd.:

We have audited the consolidated balance sheets of Agricore Cooperative Ltd. as at July 31, 2001 and 2000 and the consolidated statements of operations and retained earnings and cash flows for each of the years in the three year period ended July 31, 2001. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Cooperative as at July 31, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three year period ended July 31, 2001 in accordance with Canadian generally accepted accounting principles.

(Signed) ERNST & YOUNG LLP
Chartered Accountants

Winnipeg, Canada
September 14, 2001
(except as to Note 25 which is
as of November 2, 2001)

AGRICORE COOPERATIVE LTD.

CONSOLIDATED BALANCE SHEETS

As at July 31

[000's]

	2001	2000
ASSETS		
Current		
Cash *[note 4]*	$ 38,946	$ 42,149
Accounts receivable *[notes 5, 10 and 12]*	339,239	320,898
Inventories *[notes 6, 10 and 12]*	282,670	283,827
Prepaid expenses	7,314	7,095
Future income taxes – current portion *[note 18]*	1,706	—
	669,875	653,969
Capital assets *[notes 7, 10 and 12]*	525,974	571,602
Investments *[note 8]*	27,051	27,685
Other assets *[note 9]*	18,945	20,193
Future income taxes *[note 18]*	8,875	—
	$1,250,720	$1,273,449
LIABILITIES AND MEMBERS' EQUITY		
Current		
Outstanding cheques and cash tickets *[note 4]*	$ 47,431	$ 43,832
Short-term loans *[note 10]*	330,712	325,353
Accounts payable and accrued liabilities	221,074	177,881
Current portion of long-term debt *[notes 11 and 12]*	26,537	8,620
Current portion of other long-term liabilities	1,692	2,632
	627,446	558,318
Loans from members and staff *[note 11]*	45,268	59,020
Long-term debt *[note 12]*	220,354	245,094
Future income taxes [note 18]	14,965	3,710
Other long-term liabilities *[note 13]*	27,675	28,925
	935,708	895,067
MEMBERS' EQUITY		
Share capital *[note 14]*	61,686	52,037
Equity allocated to members *[note 15]*	165,585	184,929
Retained earnings	87,741	141,416
	315,012	378,382
	$1,250,720	$1,273,449

Commitments and Contingencies [notes 21 and 22]

Approved by the Board:

(Signed) NEIL S. SILVER
Director

(Signed) JIM WILSON
Director

See accompanying notes.

AGRICORE COOPERATIVE LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

For the year ended July 31

[000's]

	2001	2000	1999
Revenue			
Sales and other operating revenue	$ 3,151,752	$2,938,729	$3,079,925
Cost of sales	2,800,524	2,608,260	2,757,493
	351,228	330,469	322,432
Expenses			
Operating, selling and administrative expenses	252,764	258,743	248,981
Depreciation and amortization	61,050	57,694	44,292
Interest *[note 16]*	35,774	28,752	15,990
	349,588	345,189	309,263
Earnings (loss) from operations	1,640	(14,720)	13,169
Gain on disposal of capital assets	812	5,230	980
Unusual items *[note 17]*	(39,032)	4,003	(2,129)
Merger expenses *[note 2]*	—	—	(13,223)
Loss before income taxes and patronage allocation	(36,580)	(5,487)	(1,203)
Recovery of (provision for) income taxes *[note 18]*			
Current	(8,561)	6,741	3,625
Future	24,275	9	(1,531)
	15,714	6,750	2,094
Earnings (loss) before patronage allocation	(20,866)	1,263	891
Adjustment to prior year patronage allocation *[note 15]*	—	—	2,037
Net (loss) earnings after patronage allocation	(20,866)	1,263	2,928
Retained earnings, beginning of year	141,416	143,025	148,860
Change in accounting for income taxes *[note 3]*	(28,666)	—	—
Restated	112,750	143,025	148,860
Dividends paid	(4,143)	(2,872)	(1,778)
Transaction costs, net of tax *[note 2]*	—	—	(6,985)
	(4,143)	(2,872)	(8,763)
Retained earnings, end of year	$ 87,741	$ 141,416	$ 143,025

See accompanying notes.

AGRICORE COOPERATIVE LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended July 31
[000's]

	2001	2000	1999
CASH PROVIDED BY (USED IN)			
Operating Activities			
Net (loss) earnings after patronage allocation	$(20,866)	$ 1,263	$ 2,928
Items not affecting cash			
Patronage	—	—	(2,037)
Depreciation and amortization	61,050	57,694	44,292
Provision for (recovery of) future income taxes	(24,275)	(9)	1,531
Loss (gain) on disposal of capital assets	19,459	(5,230)	(980)
Other	96	(11,877)	(1,223)
	35,464	41,841	44,511
Change in non-cash working capital	25,790	24,245	(86,981)
	61,254	66,086	(42,470)
Financing Activities			
Dividends paid	(2,292)	(2,872)	(1,778)
Increase (decrease) in long-term debt	(13,806)	49,814	13,358
Increase in short-term loans	5,359	15,175	166,666
Members' equity payments	(11,546)	(5,682)	(8,587)
Increase (decrease) in loans from members and staff	(6,769)	(7,985)	3,148
Decrease in other long-term liabilities	(2,175)	(2,791)	(665)
Transaction costs before tax	—	—	(11,350)
	(31,229)	45,659	160,792
Investing Activities			
Purchase of capital assets	(38,600)	(120,951)	(177,258)
Proceeds on disposition of capital assets	2,135	15,395	73,891
Decrease (increase) in other assets	2,330	(500)	(7,492)
Decrease (increase) in investments	(2,692)	(1,178)	11,554
	(36,827)	(107,234)	(99,305)
Net increase (decrease) in cash and cash equivalents	(6,802)	4,511	19,017
Cash and cash equivalents, beginning of year *[note 4]*	(1,683)	(6,194)	(25,211)
Cash and cash equivalents, end of year *[note 4]*	$ (8,485)	$ (1,683)	$ (6,194)
Supplementary disclosure of cash flow information			
Cash paid during the year for:			
Interest	(35,962)	(34,984)	(25,189)
Income taxes	(1,877)	(151)	(5,237)

See accompanying notes.

AGRICORE COOPERATIVE LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended July 31, 2001, 2000, 1999

[tabular amounts in $ thousands, unless otherwise indicated]

1. NATURE OF BUSINESS

Agricore Cooperative Ltd. (the ''Cooperative'') was formed through the amalgamation of Alberta Wheat Pool (''AWP'') and Manitoba Pool Elevators (''MPE'') effective November 1, 1998 and incorporated under the Cooperatives Act, 1996 (Saskatchewan). The Cooperative is primarily engaged in the supply of services to the agriculture industry and is owned directly by farmers of western Canada.

The Cooperative returns earnings to members as patronage allocations based on the member's business with the Cooperative. The patronage allocations are based on five earnings pools being grain, export seed, beans, special crops and agro.

2. BUSINESS COMBINATION

On October 30, 1998, the delegates of AWP and MPE and the AWP shareholders approved resolutions to amalgamate AWP and MPE to form the Cooperative.

The nature of the business combination was such that neither of the combining cooperatives could be identified as the acquirer. Accordingly, the consolidated financial statements were prepared using the pooling of interests method under which the accounts of the predecessor cooperatives are combined at their respective book values after appropriate adjustments for consistency of accounting policies.

The amalgamation agreement provided for the conversion of AWP and MPE member equity to membership equity in the Cooperative on a dollar for dollar basis. The agreement recognizes that a theoretical premium would be attributable to the former members of AWP if certain events were realized after the creation of the Cooperative. The premium would arise only if events enabled Agricore to realize or attribute proceeds or value greater than the then current book value, exclusive of non-participating shares of Agricore.

Transaction costs and merger expenses related to the business combination totalled approximately $24.6 million before income taxes for the year ended July 31, 1999. Of this amount, $7.0 million, net of $4.4 million of income taxes, was charged to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES

In preparing its financial statements the Cooperative follows generally accepted accounting principles. The following is a summary of the Cooperative's significant accounting policies:

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative, its subsidiaries and its proportionate share of the accounts of significant joint ventures:

	Ownership %
Alberta Industrial Mustard Ltd.	50%
Alberta Wheat Pool Financial Corporation	100%
CanAmera Foods	16⅔%
Cascadia Terminal	50%
Demeter (1993) Inc.	100%
Pacific Elevators Limited	70%
Western Pool Terminals Ltd.	70%
Western Co-operative Fertilizers Ltd.	66⅔%
XCAN Grain Pool Ltd.	100%

The Cooperative consolidates its pro rata share of joint ventures at rates that approximate the Cooperative's ownership interest in or the volume of business done with the respective joint ventures.

Inventories

Grains purchased for sale to the Canadian Wheat Board are valued at established initial prices less unearned handling revenues and costs yet to be incurred. Grains and oilseeds purchased for the Cooperative's own account, and related open purchase and sales contracts, are valued on the basis of estimated market values. Other inventories, including special crops, seed and agro supplies are valued at the lower of cost and net realizable value.

Capital Assets

Capital assets are recorded at cost and include interest incurred on major capital projects less investment tax credits earned. The Cooperative uses a combination of straight line and diminishing balance methods of providing depreciation over the estimated useful lives of the assets. The rates used are as follows:

- High-throughput country elevator facilities, Cascadia Terminal and leasehold improvements are amortized using the straight-line method at rates of 2.5% – 4.0%. Other country and terminal facilities and other structures are amortized using the diminishing balance method at rates of 4.0% – 10.0%
- Equipment in the high-throughput elevators and the Cascadia Terminal are amortized using the straight-line method at rates of 4.0% – 20.0%. Computer equipment and software are amortized using the straight-line method at rates of 10.0% – 33.0%. Other vehicles and equipment are amortized using the diminishing balance method at rates of 10.0% – 30.0%.

Investments

The Cooperative uses the equity method of accounting for investments in companies in which it has significant influence. Portfolio investments are stated at cost, less any provisions for declines in value, other than temporary, when appropriate.

Goodwill

Goodwill, which is recorded at cost less accumulated amortization, represents the excess of the purchase price over the fair values assigned to identifiable net assets acquired and is amortized on a straight line basis over periods not exceeding 10 years. The Cooperative assesses whether there has been a permanent impairment in the carrying value of goodwill based on the fair value of the related business operations.

Employee Future Benefits

Effective August 1, 2000, the Cooperative adopted the new CICA recommendations on Accounting for Employee Future Benefits on a prospective basis. The new standard requires the use of a current market rate to discount employee future benefit obligations instead of the long-term interest rate discount assumption previously recorded. The application of the new standard does not materially affect net earnings for the period.

The Cooperative operates and funds both defined benefit and defined contribution pension plans and is a member of a multiemployer defined benefit plan. The Cooperative has adopted the following policies:

- The cost of pension benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimates of the pension plans' expected investment performance, salary escalation, mortality of members, terminations and the ages at which members will retire.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- Adjustments arising from plan amendments and transitional surplus are amortized on a straight-line basis over the average remaining service period of active employees.
- The cost of the defined contribution plan reflects specific amounts contributed on behalf of participating employees during the year.
- The excess of the net accumulated unamortized actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the defined pension plans is 8.6 years at July 31, 2001.
- Defined contribution plan accounting is applied to a multiemployer defined benefit plan for which the company has insufficient information to apply defined benefit accounting.

Revenue Recognition

Handling revenues related to country and terminal elevators are considered earned at the time shipments are made from the facilities. Commodities held in which future markets are available are valued at market and the gains and losses are included in earnings.

Income Taxes

Effective August 1, 2000, the Cooperative adopted the new CICA recommendations on Accounting for Income Taxes on a cumulative retroactive basis without restatement of individual prior periods. The new standard requires the use of the liability method of accounting for income taxes. Under this method, future income taxes are recognized on the differences between the financial statement carrying values and the respective income tax values of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which these differences are expected to be recovered or settled.

Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method. Future income tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the rate in effect in the year the differences originated. This accounting change decreased retained earnings as at August 1, 2000 by $28.7 million with a corresponding increase to the future income tax asset of $12.9 million and the future income tax liability of $41.6 million.

Foreign Currency Translation

Monetary assets and liabilities are translated at the year end exchange rate while non-monetary assets and liabilities and revenues and expenses are translated at the exchange rate prevailing on the transaction date. All exchange gains and losses are reflected in earnings during the period they occurred.

Financial Instruments

Unless otherwise stated, the book value of cash, accounts receivable, outstanding cheques and cash tickets, accounts payable and accrued liabilities, short-term loans, loans from members and staff and long-term debt approximate fair value.

Measurement Uncertainty

The amounts recorded in the financial statements for provision for decommissioning and reclamation costs and amortization of capital assets are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates, in the near term and long term, could be material.

4. CASH AND CASH EQUIVALENTS

	2001	2000
Cash	38,946	42,149
Outstanding cheques and cash tickets	(47,431)	(43,832)
	(8,485)	(1,683)

Cash balances include funds on deposit within jointly owned enterprises and are, therefore, not immediately available to the Cooperative.

5. ACCOUNTS RECEIVABLE

	2001	2000
Canadian Wheat Board	14,342	12,723
Trade accounts receivable	314,424	293,804
Other	10,473	14,371
	339,239	320,898

6. INVENTORIES

	2001	2000
Canadian Wheat Board grains	81,402	112,532
Non-Board grains	68,662	47,679
Agricultural inputs and other inventories	132,606	123,616
	282,670	283,827

7. CAPITAL ASSETS

	2001		
	Cost	Accumulated Depreciation	Net Book Value
Land	21,134	—	21,134
Buildings	680,591	293,061	387,530
Equipment	322,304	221,717	100,587
Construction in progress	16,723	—	16,723
	1,040,752	514,778	525,974

	2000		
	Cost	Accumulated Depreciation	Net Book Value
Land	21,455	—	21,455
Buildings	606,684	279,371	327,313
Equipment	322,087	191,472	130,615
Construction in progress	92,219	—	92,219
	1,042,445	470,843	571,602

During 2001, interest of $2,113,000 (2000 – $4,177,000) was capitalized on major projects under construction.

8. INVESTMENTS

	2001	2000
Lloydminster – 50%	5,334	4,488
Prairie West Terminals Ltd. – 50%	2,392	2,019
Prince Rupert Grain Consortium – 30%	3,032	2,887
Equity in and advances to other affiliates	9,169	12,230
Other	7,124	6,061
	27,051	27,685

9. OTHER ASSETS

	2001	2000
Accrued pension benefit asset	4,434	4,153
Goodwill	8,206	9,284
Other	6,305	6,756
	18,945	20,193

10. SHORT-TERM LOANS

The Cooperative has operating facilities totalling $294.0 million, with two major Canadian banks, which enable it to borrow amounts based on qualifying accounts receivable and inventories. The interest rate on these bank operating loans was 5.88% at July 31, 2001 (6.53% – 2000). These facilities are secured by a demand debenture providing first ranking security interest on inventory and accounts receivable and a second charge over fixed assets.

The Cooperative also has a commercial paper program that it operates through a wholly owned subsidiary. This program has a maximum issue limit of $120 million and is secured by Canadian Wheat Board accounts receivable and inventory. The interest rate on these loans was 4.80% (6.14% – 2000).

11. LOANS FROM MEMBERS AND STAFF

	2001	2000
Members' Savings Certificates	6,469	7,970
Loans	47,131	52,399
	53,600	60,369
Less current maturities	(8,332)	(1,349)
	45,268	59,020

Members' Savings Certificates

The interest rate payable on these certificates was 5.00% at July 31, 2001 (6.25% – 2000). The interest rate may vary for each quarter year period, based on the Bank of Canada rate in effect on the first day of each quarter. The interest rate payable on these certificates will not be less than the Bank of Canada rate less 3% for each quarter and the certificates may be presented for redemption before maturity at a discount, subject to an annual early redemption limit of $2,000,000. At July 31, 2001, $3,332,000 (2000 – $1,349,000) of members' savings certificates are due in the next fiscal year and are included in the current portion of long-term debt.

Repayments

Minimum annual repayments of member savings certificates over the next three years are:

2002 – $3,332   2003 – $2,641   2004 – $496

Loans

The loans from members and staff are repayable on a demand basis, are unsecured and bear interest at rates varying from 5.5% to prime less 1.25%. The interest rate based on prime was 5.0% at July 31, 2001 (6.25% – 2000). The loans are not considered current liabilities as they are not expected to be demanded in the next year, except for $5,000,000 which is estimated to be redeemed in the next fiscal year and is included in current portion of long term debt.

12. LONG-TERM DEBT

	2001	2000
Series A notes (9.25% interest rate)	77,000	77,000
Series B notes (9.80% interest rate)	23,000	23,000
Cascadia Series B notes (6.98% interest rate)	50,000	50,000
Term loan	83,850	—
Term loan A	—	40,500
Term loan B	—	50,000
Other	4,709	11,865
	238,559	252,365
Less current maturities	(18,205)	(7,271)
	220,354	245,094

Series A and B Notes

The notes are collateralized by a floating charge demand debenture on fixed assets and a second charge on accounts receivable and inventory, shared *pari passu* with the holder of the Term Loan. Interest is calculated and paid monthly. The Series A notes are repayable in equal annual instalments in December of the years 2001 through 2010. The Series B notes are repayable in equal annual instalments in December of the years 2011 through 2020.

Cascadia Series B Notes

The notes are collateralized by a first fixed and specific mortgage on the Cascadia Terminal as well as a pledge and charge on all leasehold land and interests. The notes are repayable in equal annual instalments in August of the years 2004 through 2023.

Term Loan

The Term loan, which replaced Term loan A and Term loan B effective April 30, 2001, is a non-revolving credit facility with a variable interest rate repayable in equal quarterly instalments of $2,150,000 and is due on December 31, 2002. At July 31, 2001 the loan had an effective interest rate of 8.52%. The credit facility is secured by a Debenture providing first ranking security interest over fixed assets and a second charge on accounts receivable and inventory, shared *pari passu* with the holders of the Series A and B Notes.

In 2001, the Cooperative entered into a fixed rate swap agreement with an effective interest rate of 6.015%, to hedge the loan. The swap agreement matures October 2003 subject to the Bank having the option to terminate this swap in October 2002.

Term Loan A

Term loan A was a non-revolving credit facility with a variable interest rate repayable in equal quarterly instalments of $1,500,000 and was due on October 31, 2006. This loan was repaid on April 30, 2001.

Term Loan B

Term loan B was a non-revolving credit facility with a variable interest rate repayable on September 12, 2001. This loan was repaid on April 30, 2001.

Other

Other long-term debt consists of the proportionate share of a joint venture's long-term debt. The loans are generally term facilities structured on a fixed rate or variable rate basis and are collateralized by certain assets of the joint venture including accounts receivable, inventories and capital assets. The loans mature at various dates to May 16, 2004 and have interest rates which vary from 5.09% to 10%.

Principal Repayments

Minimum annual repayments of long-term debt over the next five years are:

2002 – $18,205   2003 – $83,771   2004 – $9,039   2005 – $10,432   2006 – $10,435

At July 31, 2001 the Cooperative was not in compliance with a lender covenant on net earnings to interest expense. The Cooperative has received waivers from its lenders for this default. Accordingly, the debt remains classified as long term.

13. OTHER LONG-TERM LIABILITIES

The Cooperative has an interest in a joint venture operation, Western Co-operative Fertilizers Limited (''WCFL'').

In 1987, WCFL discontinued manufacturing fertilizer at its two processing plants. Subsequent to the closures WCFL retained an independent consultant who estimated the site reclamation and decommissioning costs to be between $44,000,000 and $61,500,000. WCFL recorded the maximum provision in 1995 as a charge against earnings. During the year ended July 31, 2000, WCFL, with the help of various consultants, developed conceptual reclamation plans for its former production facilities based on site assessments, environmental risk data and current technology available. The reclamation plans are designed to meet current regulatory requirements. Based on these plans, WCFL developed an updated cost estimate resulting in a reduction of $10,500,000 to the provision for a balance of $51,000,000.

Other long-term liabilities include the Cooperative's pro rata share of the estimated costs of $24,658,000 (2000 – $26,288,000) of which $1,692,000 (2000 – $2,632,000) is included in current portion of other long-term liabilities.

The Cooperative provides no guarantee for the obligations of WCFL.

14. SHARE CAPITAL

Authorized

Unlimited Class A preferred non-voting, retractable, cumulative cash dividend at prime less 1.25% to be paid quarterly, redeemable on one year's notice subject to certain conditions, par (redemption) value of $1.00 per share. All Class A shares were redeemed by the Cooperative on July 30, 2001.

Unlimited Class B preferred non-voting, retractable, cumulative share dividend at prime less 0.5% to be paid quarterly, redeemable on notice subject to certain conditions, par (redemption) value of $1.00 per share. Effective July 30, 2001 the Cooperative suspended any further redemption of Class B shares.

Unlimited Class C preferred non-voting, retractable, cumulative cash dividend at prime to be paid monthly, redeemable on notice subject to certain conditions, par (redemption) value of $1.00 per share. Effective July 30, 2001 the Cooperative suspended any further redemption of Class C shares.

Issued

	2001			
	Class A	**Class B**	**Class C**	**Total**
Balance, beginning of year	2,715	20,008	29,314	52,037
Conversion of equity accounts	—	12,955	5,386	18,341
Issued as dividends	—	1,851	—	1,851
Redemptions	(3,991)	(3,301)	(4,527)	(11,819)
Shares issued for cash	1,276	—	—	1,276
Balance, end of year	—	31,513	30,173	61,686

	2000			
	Class A	**Class B**	**Class C**	**Total**
Balance, beginning of year	1,062	7,425	25,242	33,729
Conversion of equity accounts	—	13,718	8,859	22,577
Issued as dividends	—	931	—	931
Redemptions	(38)	(2,066)	(4,787)	(6,891)
Shares issued for cash	1,691	—	—	1,691
Balance, end of year	2,715	20,008	29,314	52,037

The number of shares equals the dollar value outstanding for all classes of shares.

15. EQUITY ALLOCATED TO MEMBERS

The equity allocated to members consists of revolving equity accounts and long-term equity accounts.

The revolving equity accounts are credited with 40% of each year's patronage allocation after deduction of withholding tax. Instalment payments from revolving equity are in the form of Class B shares. Commencing in fiscal 1999, the repayment of each year's allocation will be made equally over a 10 year period beginning in the year subsequent to the allocation.

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

The remaining 20% of the patronage allocation is paid in cash to members.

	2001			2000	1999
	Long-term Equity	**Revolving Equity**	**Total**	**Total**	**Total**
Members' equity, beginning of year	73,699	111,230	184,929	208,919	236,938
Adjustment to prior year patronage allocation	—	—	—	—	(2,037)
Adjustment (cash payments)	—	—	—	—	453
Payments to prior retired and senior Manitoba members	—	—	—	—	(3,715)
Conversions to share capital	(2,376)	(15,965)	(18,341)	(22,577)	(21,780)
Members' equity redeemed	(367)	(636)	(1,003)	(1,413)	(940)
Members' equity, end of year	70,956	94,629	165,585	184,929	208,919

16. INTEREST

	2001	2000	1999
Interest on long-term debt	23,374	19,969	16,924
Other interest	20,638	19,973	9,839
Interest capitalized	(2,113)	(4,177)	(4,318)
CWB interest recovery	(6,125)	(7,013)	(6,455)
	35,774	28,752	15,990

17. UNUSUAL ITEMS

The July 31, 2001 amount represents restructuring costs arising from the closure of country elevators, reductions in administrative staff and reductions in staff at a terminal. Cost related to this restructuring include severance costs of $12,451,000, facility demolition costs of $5,867,000 and the write-off of $20,714,000 of related asset values. The July 31, 2000 amount represents a one-time recovery from the winding up of an affiliate and the July 31, 1999 amount reflects losses on investments.

18. INCOME TAXES

Effective August 1, 2000 the Cooperative changed its method of accounting for income taxes from the deferral method to the liability method of tax allocation as required by CICA recommendations (see note 3 ''Income taxes'').

At July 31, 2001 the Cooperative has a net loss carryforward of $12.2 million for income tax purposes that expires in 2006. For financial reporting purposes, a future tax asset of $5.0 million has been recognized in respect of this carryforward.

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the recovery of income taxes attributable to continuing operations are as follows:

	Liability Method 2001
Current tax expense	(8,561)
Future tax – temporary differences	23,146
Future tax – income tax rate change	1,129
Recovery of income taxes	15,714

The reconciliation of income tax recovery attributable to continuing operations computed at the statutory tax rate of 44.25% (July 31, 2000 and 1999 – 45%) to the income tax recovery is:

	Liability Method 2001	Deferred Method 2000	Deferred Method 1999
Loss before income taxes and patronage allocation	(36,580)	(5,487)	(1,203)
Patronage allocation	—	—	2,037
Earnings (loss) before income taxes	(36,580)	(5,487)	834
Income taxes at Canadian statutory tax rate	16,187	2,469	(375)
Previously unrecognized tax benefits	—	4,903	1,298
Tax effect of expenses that are not deductible for income tax purposes	(1,132)	—	—
Reduction in future income taxes resulting from statutory tax rate reductions	1,129	—	—
Other	(470)	(622)	1,171
Recovery of income taxes	15,714	6,750	2,094

19. BUSINESS ACQUISITION

During 2001 the Cooperative acquired an additional 33 1/3% of XCAN Grain Pool Ltd. (XCAN) to increase its interest to 100%. This ownership increase was achieved by XCAN redeeming all of the outstanding shares of the other owner. No consideration was given by the Cooperative.

20. EMPLOYEE FUTURE BENEFITS

The Cooperative provides both defined benefit pension plans and defined contribution plans for substantially all of its employees and is a member of a multiemployer defined benefit plan.

The total expense for the defined contribution plan is $2,128,000 for the 2001 year. The Cooperative participates in a multiemployer defined benefit plan providing pension benefits. This plan, to which the contributions totalled $663,000 in 2001, is accounted for as a defined contribution plan but the contributions are not included in the defined contribution plan expense above.

Information about the Cooperative's defined benefit plans other than the multiemployer defined benefit plan, in aggregate, is as follows:

	2001
Accrued benefit obligations	
Balance at beginning of year	95,690
Current service cost	3,115
Interest costs	6,369
Benefits paid	(10,478)
Actuarial loss	2,589
Balance at end of year	97,285
Plan assets, market value	
Balance at beginning of year	114,796
Actual return on assets	(3,340)
Employer contributions	399
Employee contributions	105
Benefits paid	(10,223)
Balance at end of year	101,737
Surplus at end of year	4,452
Unamortized actuarial loss	12,901
Unamortized transitional asset	(13,359)
Accrued benefit asset	3,994

An accrued pension benefit asset of $4,434,000 is included in other assets (Note 9) offset by a $440,000 accrued pension benefit liability of a subsidiary included in other long-term liabilities.

The above accrued benefit obligations include $1,006,000 for an unfunded plan.

The significant actuarial assumptions adopted in measuring the Cooperative's accrued benefit obligations are as follows:

	2001
Discount rate	7.00%
Expected long term rate of return on plan assets	7.00%
Rate of compensation increase	3.50%

The Cooperative's net benefit plan expense is as follows:

	2001
Current service cost, net of employee contributions	3,010
Interest costs	6,048
Expected return on plan assets	(7,125)
Amortization of transitional asset	(1,429)
	504

For years prior to 2001, the cost of the deferred benefit plan was charged to expense as service was rendered. At July 31, 2000, the accrued obligation was $92,924,000 (1999 – $91,241,000) with a market value of plan assets of $105,301,000 (1999 – $98,910,000).

21. FINANCIAL INSTRUMENTS

The Cooperative issues long-term debt and participates in commodity futures, some of which are negotiated in US dollars. It uses financial instruments to reduce its exposure to fluctuations in commodity futures, foreign currency transaction rates and interest rates.

Credit risk is mitigated through a combination of utilizing established credit policies and dealing with a large and diverse customer base.

Commodity Price Risk Management

The Cooperative uses commodity futures to reduce (hedge) its exposure to price fluctuations on non-Canadian Wheat Board grains. Outstanding futures contracts have been valued at fair value with terms not exceeding one year.

Foreign Exchange Risk Management

The Cooperative enters into exchange rate contracts and options to hedge its exposure on US dollar cash flows. Contracts and options, with settlement dates during the next year, totalling $232,420,000 were outstanding at July 31, 2001 (2000 – $183,823,000). The fair market value of these contracts is ($1,097,000) as at July 31, 2001 (2000 – $45,000).

Interest Rate Risk Management

The Cooperative manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings and through the use of interest rate swaps with Canadian chartered banks. Short-term borrowings are floating rate prime based.

The Cooperative uses rates currently available for long term debt with similar terms and remaining maturities to estimate the fair value of existing borrowings. At July 31, 2001 the fair value of the Series A and B notes and Cascadia Series B notes was approximately $156,000,000 (2000 – $157,000,000).

An interest rate swap of $82,325,000 with an effective interest rate of 6.015% was used to hedge the Term Loan. The swap agreement matures October 2003 subject to the Bank having the option to terminate this swap in October 2002. The fair value of the interest rate swap obligations at July 31, 2001 was a liability of $2,301,000.

22. COMMITMENTS AND CONTINGENCIES

The Cooperative, including its subsidiaries and its proportionate share of joint ventures, has operating leases relating primarily to buildings, rail cars and other equipment. Future minimum payments under these leases are as follows:

2002	8,182
2003	7,201
2004	5,731
2005	4,020
2006	2,623
Subsequent years	5,090
	32,847

The Cooperative has outstanding banking letters of credit of $18,575,000 and has a pro rata share of commitments for joint ventures' letters of credit of $4,510,000 related to operating in the grain business. The Cooperative also has an outstanding performance guarantee of $22,942,000 and a pro rata share of joint venture performance and financial guarantees of $1,000,000.

Incident to the operation of its business, various lawsuits and claims are pending by and against the Cooperative. In Management's opinion, the Cooperative has adequately provided for the expected final determination of these claims.

23. INTEREST IN JOINT VENTURES

The Cooperative consolidates its pro rata share of joint ventures' accounts at rates that approximate either the Cooperative's ownership interest in or the volume of business with the respective joint venture.

	2001	2000	1999
Consolidated Balance Sheet			
Cash	22,559	32,944	
Other assets	178,908	205,890	
Current liabilities	(46,759)	(67,002)	
Long-term debt	(2,257)	(9,420)	
Other long-term liabilities	(23,780)	(23,909)	
Net investment in joint ventures	128,671	138,503	
Consolidated Statement of Operations			
Revenues	443,930	1,176,538	1,189,346
Expenses	(407,676)	(1,126,782)	(1,169,017)
Current year earnings	36,254	49,756	20,329
Consolidated Statement of Cash Flows			
Cash provided by (used in):			
Operating activities	23,808	28,329	12,491
Financing activities	(6,011)	(6,122)	(6,902)
Investing activities	5,521	10,330	2,814

24. SEGMENTED INFORMATION

The Cooperative's business operations are grouped into three business segments, with non-core activities reflected as a separate segment. The principal activities of the business segments are as follows:

(a) *Grain Handling and Marketing*

Activities consist of the handling and marketing of grain including the collection of grain through its primary elevator system, shipping to port terminals, cleaning of grain to meet regulatory specifications and sales to domestic or export markets.

(b) *Agri-Sales and Service*

Activities consist of the sale of a variety of farm supplies including crop protection products, seed and seed treatment, fertilizer, farm tools and equipment.

(c) *Agri-Food Processing*

Activities involve the manufacturing and marketing of value-added products derived from farm commodities.

(d) *Corporate and Other*

Activities consist of the sale of subscriptions and advertising through the publication of a farm newspaper, corporate costs and other activities not specifically related to core business segments.

The segmented information for the business segments is as follows:

	2001	2000	1999
Sales			
Grain Handling and Marketing	2,237,088	2,081,192	2,145,099
Agri-Sales and Service	732,600	689,577	762,224
Agri-Food Processing	178,746	164,201	164,008
Corporate and Other	3,318	3,759	8,594
	3,151,752	2,938,729	3,079,925
(Loss) earnings before income taxes			
Grain Handling and Marketing	(2,266)	13,130	18,631
Agri-Sales and Service	41,920	18,176	32,332
Agri-Food Processing	4,140	3,286	3,535
Corporate and Other	(42,154)	(49,312)	(41,329)
Earnings (Loss) from operations	1,640	(14,720)	13,169
Gain on sale of assets	812	5,230	980
Unusual items	(39,032)	4,003	(2,129)
Merger expenses	—	—	(13,223)
	(36,580)	(5,487)	(1,203)
Depreciation and Amortization			
Grain Handling and Marketing	31,834	26,721	17,409
Agri-Sales and Service	21,503	23,727	19,354
Agri-Food Processing	3,434	3,363	2,777
Corporate and Other	4,279	3,883	4,752
	61,050	57,694	44,292
Capital Expenditures			
Grain Handling and Marketing	22,766	93,293	80,930
Agri-Sales and Service	10,696	18,059	70,881
Agri-Food Processing	3,498	2,157	4,673
Corporate and Other	1,640	7,442	20,774
	38,600	120,951	177,258

25. SUBSEQUENT EVENT

On July 30, 2001, the board of directors of both United Grain Growers Limited (''UGG'') and Agricore announced their intention to merge their respective businesses (the ''UGG Transaction''). On August 30, 2001 at special meetings the transaction received the required majority approvals of Agricore's delegates and shareholders. The UGG Transaction resulted in a merger of the businesses of Agricore and UGG to form ''Agricore United''. That merger was effected through an exchange of the Agricore stakeholders' economic interest in Agricore for publicly traded shares of UGG on November 1, 2001.

26. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

CERTIFICATE OF THE COMPANY

Dated: December 11, 2001

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities laws of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia. For the purpose of the Province of Quebec, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation likely to affect the value or market price of the securities to be distributed.

(Signed) BRIAN HAYWARD
Chief Executive Officer

(Signed) PETER COX
Chief Financial Officer

On behalf of the Board of Directors of the Company

(Signed) THEODORE M. ALLEN
Director

(Signed) MEL A. MCNAUGHTON
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: December 11, 2001

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating the securities offered by this short form prospectus as required by the securities laws of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia. For the purpose of the Province of Quebec, to our knowledge, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation likely to affect the value or the market price of the securities to be distributed.

SCOTIA CAPITAL INC.	NATIONAL BANK FINANCIAL INC.
By: (Signed) GREGORY M. RUDKA	By: (Signed) SCOT A. MARTIN
CIBC WORLD MARKETS INC.	RBC DOMINION SECURITIES INC.
By: (Signed) ARTHUR KORPACH	By: (Signed) DENNIS MULVIHILL

HSBC SECURITIES (CANADA) INC.

By: (Signed) DEBORAH J. SIMKINS

POLLITT & CO. INC.	WELLINGTON WEST CAPITAL INC.
By: (Signed) MURRAY POLLITT	By: (Signed) KEVIN M. HOOKE

The following includes the name of every person or company having an interest, either directly or indirectly, to the extent of not less than 5% in the capital of:

SCOTIA CAPITAL INC.: a wholly-owned subsidiary of a Canadian chartered bank;

NATIONAL BANK FINANCIAL INC.: an indirect wholly-owned subsidiary of a Canadian chartered bank;

CIBC WORLD MARKETS INC.: a wholly-owned subsidiary of a Canadian chartered bank;

RBC DOMINION SECURITIES INC.: an indirect wholly-owned subsidiary of a Canadian chartered bank;

HSBC SECURITIES (CANADA) INC.: a wholly-owned subsidiary of a Canadian chartered bank;

POLLITT & CO. INC.: Murray H. Pollitt and Rosedale Transport Ltd.; and

WELLINGTON WEST CAPITAL INC.: The Spiring Family Trust, The Walter Silicz Family Trust and Crocus Investment Fund.

Agricore United™

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