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BC Sugar Refinery, Ltd.

ANNUAL REPORT 1996

BC Sugar Refinery, Limited

Corporate Office

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Postal Address:
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Transfer Agents

Montreal Trust Company of Canada

Stock Listing

Toronto Stock Exchange

Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, February 18, 1997 at 3:00 P.M. in the Park Ballroom of the Four Seasons Hotel, Vancouver, British Columbia

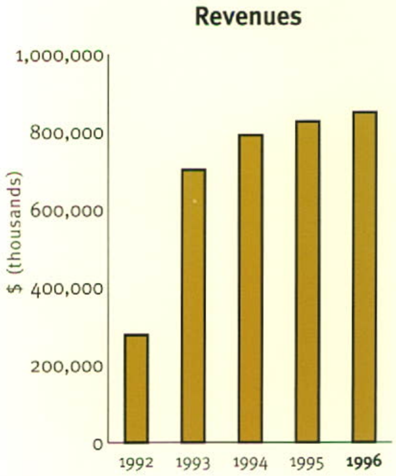
Auditors

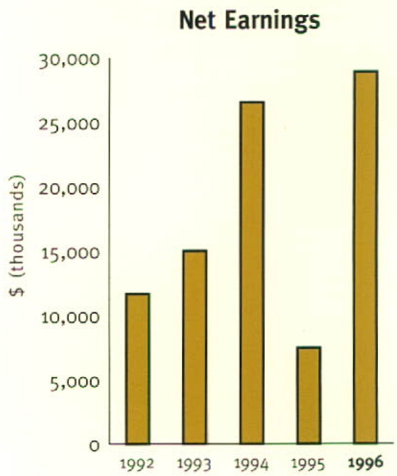
KPMG
Chartered Accountants
Vancouver, B.C.

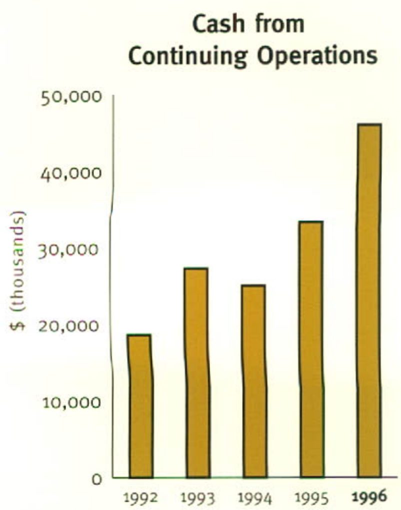
Corporate Solicitors

Bull, Housser & Tupper
Barristers & Solicitors
Vancouver, B.C.

Table of Contents







BC Sugar Refinery, Limited, which celebrated its 100th anniversary in 1990, is involved in the production, distribution and marketing of sugar products throughout Canada and the northeastern United States. Through its operating companies, Rogers Sugar Ltd. and Lantic Sugar Limited, the Company has five production facilities in Canada, and through Refined Sugars, Inc., one production facility in the United States.

Financial Highlights

(000's omitted except per share amounts)

Years ended September 30	1996	1995
Revenues	$ 848,554	$ 825,380
Net earnings	$ 28,885	$ 7,488
Cash from operations	$ 45,992	$ 33,325
Dividends	$ 9,971	$ 9,967
Average common shares outstanding	24,722	24,722
Per Common Share		
Net earnings	$ 1.17	$ 0.30
Cash from operations	$ 1.86	$ 1.35
Dividends	$ 0.40	$ 0.40

Report to Shareholders

Results

Fiscal 1996 was a rewarding year for BC Sugar as net earnings increased significantly to $28.9 million or $1.17 per share, from $7.5 million or $0.30 per share for fiscal 1995. Cash from operations was $46.0 million or $1.86 per share, versus $33.3 million or $1.35 per share for 1995.

Revenues for the year ending September 30, 1996 totalled $849 million, compared to $825 million in 1995. Our Canadian operations, comprised of Rogers Sugar Ltd. ("Rogers") and Lantic Sugar Limited ("Lantic"), reported operating earnings of $59.3 million, up from $51.8 million in 1995. Our U.S. operation, Refined Sugars, Inc. ("RSI"), reported operating earnings of $6.1 million compared to an operating loss of $9.9 million last year. Net earnings also increased due to a decline in interest costs, reflecting the steady reduction in the Company's long-term debt.

Operations

Management efforts in 1996 continued to focus on cost-reduction opportunities and operating synergies, in conjunction with a renewed emphasis on marketing strategies.

Operating earnings improved for Rogers and Lantic, reflecting the imposition of anti-dumping and countervailing duties on imports of refined sugar from the United States and the European Community. The imposition of these duties has curtailed the dumping of sugar into Canada from those countries, with a consequent recovery in margins. Operating earnings also increased due to the positive impact of cost-containment programs undertaken during the past several years.

These positive factors were partially offset by increased competitive pressure in the marketplace, caused by a significant capacity expansion announced by a domestic competitor. The intensification of competition has been more prominent in eastern Canada, but has had a material economic impact on all of our Canadian business. While Lantic's results improved over last year, both volumes and sales margins were lower than anticipated. The Company is meeting these competitive challenges with further organizational restructuring and cost rationalization.

BC Sugar's U.S. operations have benefitted from reduced sugar beet production after the record high crop of the previous year. Resulting favourable market conditions have been enhanced by RSI's past and ongoing efforts in reducing its cost structure. In the June quarter, RSI reported its first quarterly operating profit in several years, and market conditions and results continue to improve.

More detailed reports on the Company's Canadian and U.S. operations are reviewed in the operational section of this Annual Report.

Trade Issues

Canada The successful resolution of the issue of dumped and subsidized refined sugar imports into Canada was one of the most important events for BC Sugar in the 1996 fiscal year. In early 1995, Revenue Canada initiated a combined anti-dumping and countervailing duty investigation against certain refined sugar imported into Canada. The "dumping complaint" identified refined sugar from the United States, Denmark, Germany, the Netherlands, the United Kingdom and the Republic of Korea. The "subsidy complaint" was directed against the United States and the European Union.

Revenue Canada completed the preliminary phase of its investigation in July and determined that refined sugar originating in, or exported from, all the countries identified in the complaint had been dumped in Canada, and that refined sugar originating in, or exported from, the European Union had been subsidized. Duties which reflected estimated margins of dumping and amounts of subsidies were consequently imposed on any further imports of refined sugar from these sources. Accordingly, virtually no dumped or subsidized refined sugar entered Canada after July 7, 1995. Revenue Canada's final determination confirming this preliminary finding was made on October 5, 1995.

On November 6, 1995, the Canadian International Trade Tribunal ("CITT") ruled that dumped sugar from the United States, Denmark, Germany, the Netherlands and the United Kingdom, as well as subsidized sugar from the European Union, was threatening material injury to the Canadian sugar industry and confirmed the imposition of duties by Revenue Canada.

In January, 1996, the CITT announced that it would proceed with an investigation into the question of whether the imposition of anti-dumping and countervailing duties on refined sugar was in the public interest. In its decision of April 4, 1996, the Tribunal concluded that there was no public interest issue which warranted the reduction of the anti-dumping and countervailing duties. Existing tariffs are expected to remain in place until at least the latter part of the year 2000.

The decisions of Revenue Canada and the CITT have had a positive effect on the earnings of your Company in fiscal 1996. This effect is expected to continue in the future and will assist in offsetting the impact of the imposition of additional trade barriers on exports of Canadian beet sugar and sugar-containing products ("SCPs") to the U.S.

Prior to 1995, sugar of Canadian origin exported to the United States was subject to no legal quota. As Canadian beet sugar was deemed the only sugar of Canadian origin, the Company's sugar beet operations were shipping up to 40,000 tonnes annually into the U.S.

On October 1, 1995, the United States instituted a 22,000 tonne global or world quota, and although the Company was able to fill most of this quota for the 1995 fiscal year, in 1996 the quota filled by Canada was again sharply reduced.

The consequences of this action for the Company and our sugar beet grower partners are discussed in more detail under "Trade-Access" in the Canadian Operations section of this Report. Also discussed in that section is the issue of loss of access for Canadian SCPs shipped to the United States. In a few short years, we have seen Canadian access for these products reduced by over 100,000 tonnes. It is appropriate to emphasize our commitment to the fair and equitable resolution of these issues under the trade mechanisms which have been instituted by our government and that of the United States. We will continue to be active and involved in these and other important trade matters.

United States The U.S. re-export program permits manufacturers of SCPs to use refined sugar sourced from world-priced raw sugar (rather than from higher-priced domestic raws) as long as the SCPs are exported for foreign consumption. The export of these SCPs to Canada causes a reduction in demand for Canadian-produced SCPs and therefore a reduction in demand for sugar from Canadian refineries.

Under the North American Free Trade Agreement ("NAFTA"), the U.S. was obligated to terminate this program on January 1, 1996. However, Canada subsequently granted an extension to October 1, 1996. The program has now continued beyond October 1, 1996, and the Canadian government has indicated it is prepared to pursue this issue through a NAFTA panel.

Outlook

The outlook for the Canadian refined sugar market is positive, particularly if the re-export program as it applies to SCPs shipped from the U.S. is discontinued in 1997. Also, the low price of raw sugar has made some business which is usually reserved for high fructose corn syrup available to sugar producers. Although poor weather conditions in the spring of 1996 delayed the planting of sugar beets in Manitoba, the crop in Alberta should offset any shortfall in Manitoba sugar production. However, the Canadian market is expected to remain highly competitive as the market absorbs capacity expansion.

In the U.S., the outlook is very positive. RSI's order book for 1997 is strong, with good margins. RSI has a competitive cost position, and market opportunities will be pursued for further growth which should result in continued improvement in earnings.

BC Sugar ended fiscal 1996 with a healthy balance sheet showing long-term debt of $118 million and shareholders' equity of $218 million, and the Company is expected to continue to generate strong cash flow from operations over the next year. In 1997, however, it is unlikely that the competitive pressure on our Canadian operations will be entirely offset by the expected improvement in our U.S. operating results.

Previous reports to shareholders have explained that the very difficult financial situation experienced in recent years by cane sugar refiners in the United States may be largely attributed to the sugar price support provisions of the U.S. Farm Bill. Although this legislation expired on December 31, 1995, the price support program for sugar was renewed under legislation enacted by Congress in early 1996.

There does, however, continue to be strong opposition to these government policies that inflate consumer prices, and we are optimistic that there will be future reforms to the Sugar Program which will be positive for RSI over the medium term.

The BC Sugar executive team, left to right, seated: Greg Hoskins; standing: David Elliott, André Bergeron, Bill Brown, and Jim Hudson.

Other

Retirements Peter A. Cherniavsky and John W. Pitts, each having reached the mandatory retirement age of 70 years, will be retiring as Directors of the Company at the Annual General Meeting in February, 1997. Mr. Pitts has served on the Board since 1969, and Mr. Cherniavsky, the former Chairman of the Board, has been a BC Sugar employee since 1948.

The Board would like to express its appreciation to Mr. Cherniavsky and to Mr. Pitts for their valuable contributions during their years of service to your Company.

We also thank our customers, shareholders and employees for their support this past year and look forward to their continued involvement with our success.

5% Preference Shares On July 5, 1996, the Company announced the redemption of all 78,500 issued and outstanding 5% Preference Shares at a price of $20 per share. No further dividends will accrue or be paid on the 5% Preference Shares beyond August 16, 1996.

On behalf of the Board,

William C. Brown
President and Chief Executive Officer
December 18, 1996

Canadian Operations

(In Thousands of Dollars)	1996	1995
Revenues	$ 488,044	$ 504,221
Operating earnings	$ 59,345	$ 51,837
Assets employed	$ 203,488	$ 183,635

BC Sugar's Canadian operations reported revenues of $488 million in the year ended September 30, 1996 versus $504 million for fiscal 1995. Operating earnings were $59.3 million compared to $51.8 million last year.

Market

The most significant event of the past year for the Company's Canadian operations was the November 6, 1995 CITT finding that dumped and subsidized refined sugar presented a threat of injury to the Canadian sugar industry. For Rogers, this ruling, combined with an aggressive marketing strategy, resulted in a record year for domestic sales volumes. Unfortunately, the volume increase over 1995 was offset to some degree by further restrictions on Rogers' refined beet sugar export sales to the United States.

In December, 1995, an eastern Canadian competitor announced a program to increase the capacity of its Toronto refinery by 75 percent. Part of the planned capacity increase was filled with future contracts negotiated at the expense of Lantic through the offering of much greater discounts than existed in the marketplace at the time. Rogers and Lantic were obliged to respond with aggressive pricing and a renewed emphasis on cost-reduction initiatives.

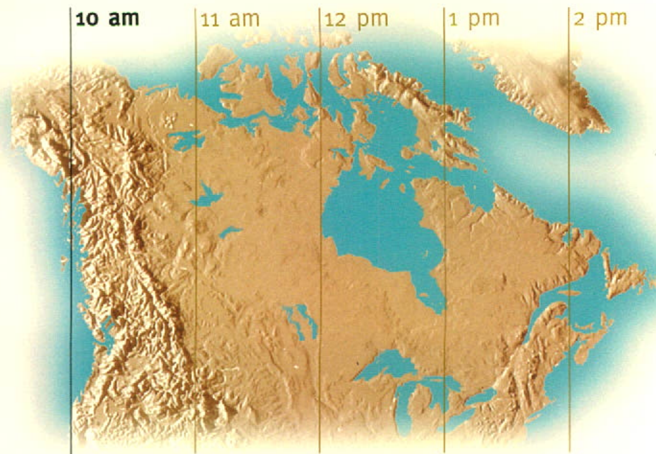
Operations

Rogers Financial results for Rogers in 1996 improved over the previous year. The primary reasons were increased returns from sugar and by-products, realization of a full year of the cost-reduction programs initiated in 1995 and production efficiencies resulting in more sugar being produced per hour worked. Negative issues, which will have more of an impact on future results, were eastern competition and Canada/U.S. trade issues.

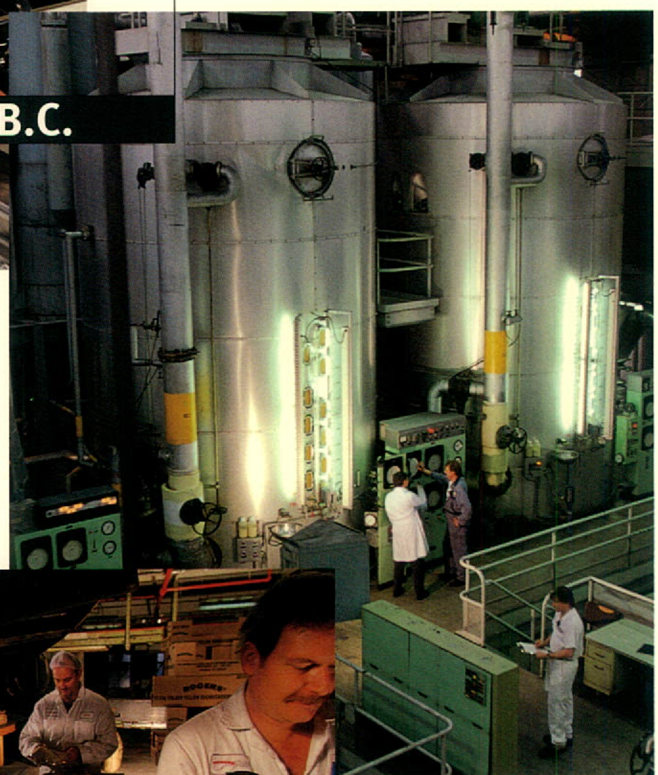
During the year, new collective labour agreements extending into 1998 were signed at the Vancouver and Taber operations. In 1997, Rogers' Winnipeg operation will commence the second three-year phase of a nine-year contract which provides for neither strikes nor lockouts.

The major programs initiated to reduce costs and to ensure more efficient operations have been very successful. Review of initiatives and synergies continues, both within Rogers and among Rogers, Lantic and RSI.

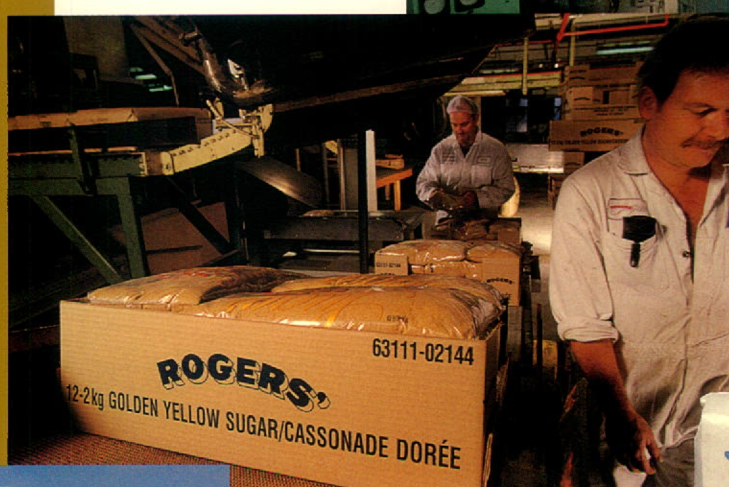
Lantic Financial results for Lantic improved in 1996 over the previous year, although both volumes and margins were lower than anticipated due to the intensely competitive domestic market for refined sugar in the latter part of the year. Lantic was able to secure additional volume in the export market to keep the Montreal and Saint John refineries operating at near full capacity for the entire year, and earnings benefitted from



Vancouver, B.C.



Demand from the beverage industry continues to grow. The Company's western Canadian operations supply a well-established customer base which includes a number of these manufacturers.



BC Sugar

the margin associated with these volumes and from the resulting economies of scale.

Successful bargaining unit discussions enabled Lantic to operate on a flexible work schedule at the Saint John refinery, resulting in increased productivity and further cost reductions. The consolidation of all of Lantic's Quebec workforce at the Montreal refinery will contribute to continued rationalization of overhead and has resulted in a workforce reduction of approximately 4 percent. These efforts will result in annual cost savings of over $5 million commencing in 1997.

Transition and change in the production group continued in 1996 with the implementation of final re-engineering recommendations and the achievement of ISO 9002 certification (an internationally recognized standard for quality systems) at both refineries, the Toronto Distribution Centre and Lantic's administrative office. The introduction of semi-autonomous work teams and area ownership concepts, including the removal of middle and night shift supervision at the Montreal refinery, was a major achievement in 1996. During the year, a number of additional cost-reduction initiatives were identified and implemented to ensure profitability at lower production volumes.

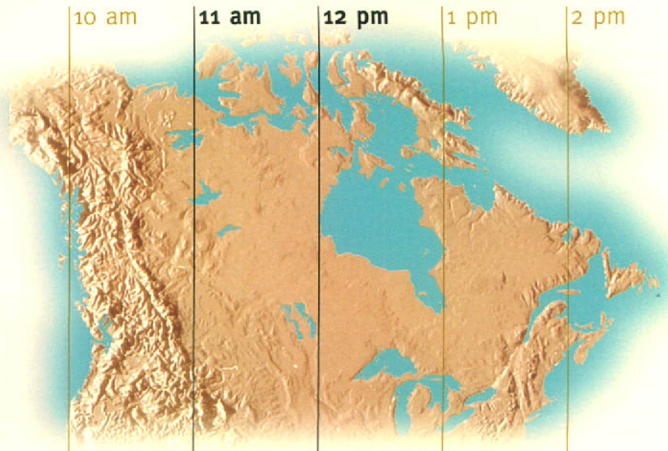
A new three-year labour agreement for the Saint John refinery was negotiated during 1996, and a three-year agreement was signed for the Toronto Distribution Centre.

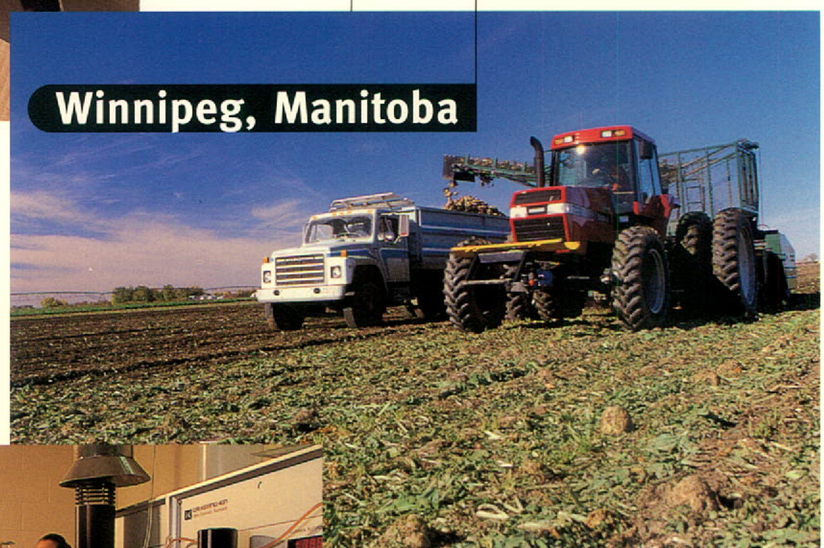
Trade

Imports No single external issue will impact the financial success of BC Sugar's Canadian operations more than the successful outcome of Canada/United States trade discussions regarding refined sugar and sugar-containing products. It is extremely encouraging that the CITT ruling of threat of injury resulting from dumping of sugar into Canada has survived the challenges of a public hearing and two NAFTA panels.

Exports of SCPs from the U.S. to Canada, however, remain a concern. The program continues despite an October 1, 1996 extended deadline, and it appears that Canada's only recourse is through a NAFTA panel. The Federal Government has indicated that it is prepared to pursue this course of action.

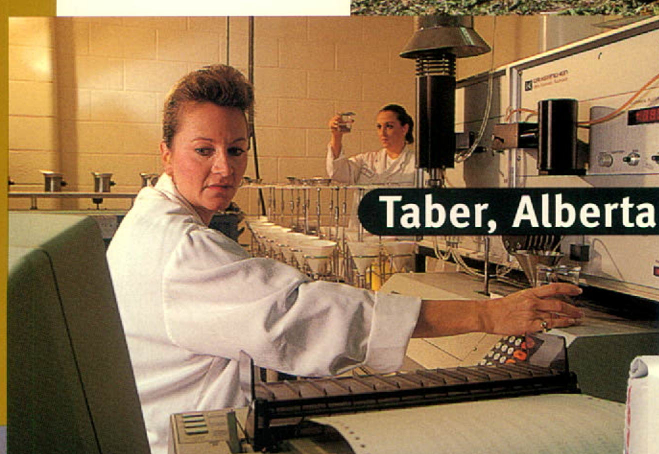
Access In recent years, only refined beet sugar produced in Canada was deemed to be of Canadian origin for purposes of qualifying for export to the United States. There was no quota on sugar of Canadian origin, and Rogers exported approximately 40,000 tonnes to the U.S. per year. Commencing October 1, 1995, the United States instituted a 22,000 tonne annual world quota for refined sugar. Rogers' shipments filled most of this quota in that year. However, for the quota year beginning October 1, 1996, sugar shipped to the U.S. in anticipation of acquiring a portion of the quota originated from many countries, including Canada, and far exceeded 22,000 tonnes. As a result, Rogers' participation in the 1996/97 quota will amount to only 5,000 tonnes. In addition, this year, Mexico was awarded a 25,000 tonne specific quota which





Winnipeg, Manitoba

Our western Canadian operations include beet sugar factories in Taber, Alberta and Winnipeg, Manitoba. Rogers is the only Canadian producer of beet sugar.



Taber, Alberta

remained available to Mexico after the 22,000 tonne global quota was satisfied. This gave Mexican refiners a significant advantage in that they could deliver into the U.S. the equivalent of the entire 22,000 tonne global quota before shipping their country-specific quota. Rogers and the sugar beet growers will lose significant revenues because of this year's reduced access to the premium U.S. market.

Of further concern is Canada's loss of access for approximately 100,000 tonnes of exports of SCPs to the United States over the past few years.

Restrictions on exports of refined sugar and SCPs must also be challenged through the NAFTA. Unfortunately, and without justification, the Canadian sugar and SCP export issue has been linked with claims that Canada is effectively blocking imports of U.S. dairy and poultry products by applying exorbitant protective duties. The Federal Government has expressed unwillingness to address access to the United States for sugar and SCPs until the dairy and poultry supply management matter has been resolved.

Outlook

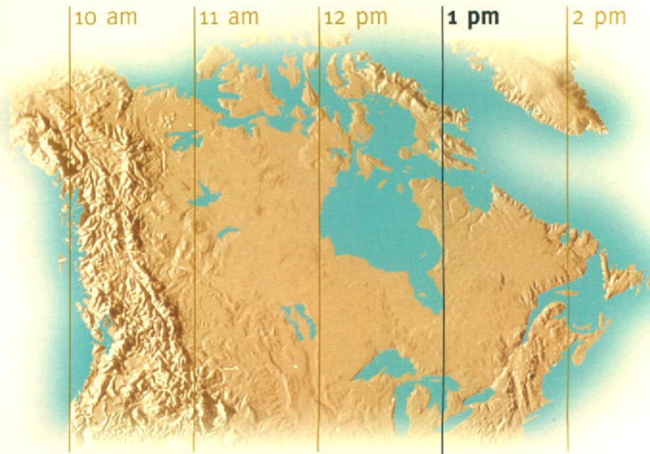
Rogers Time and effort will continue to be dedicated to trade issues. Their favourable resolution is imperative to our continued success. Sales margins will remain under extreme pressure as competing Canadian refiners attempt to maximize capacity utilization. In 1997, Rogers will introduce a major maintenance management initiative to identify and realize sustainable facility cost reductions.

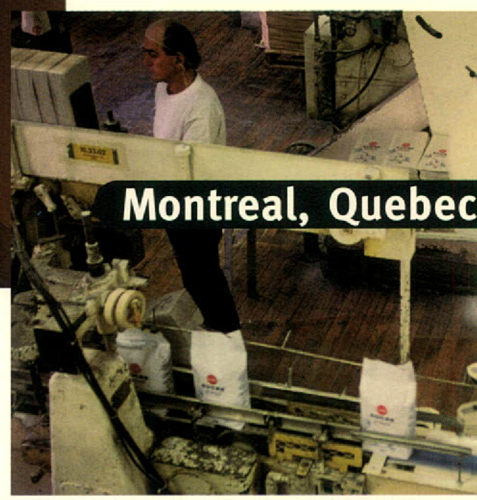
Rogers' employees and business partners have met the challenges during the past year and have set high but attainable standards to ensure future success.

Lantic Domestic sales volumes for 1997 will be lower than in 1996. However, the low price of raw sugar has made some business which has historically been supplied by high fructose corn syrup available to sugar refiners. If the re-export program for SCPs shipped from the U.S. is discontinued in 1997, demand for domestic refined sugar from Canadian SCP manufacturers will increase. Lantic will spare no effort to gain a fair share of this increased volume and will continue to explore all opportunities to maximize export sales.

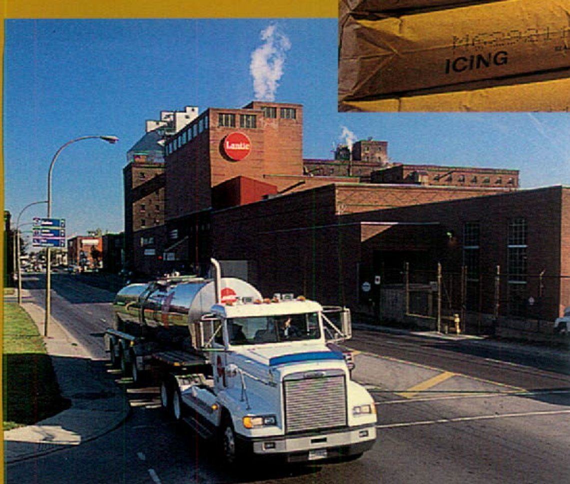
Sales margins will continue to be depressed, as much of the volume to be shipped in 1997 was contracted in 1996 at low margins during the struggle to maintain Lantic's Canadian refined sugar market share.

Cost reduction will continue to be a focus, and Lantic is confident of achieving further efficiencies in 1997. The impact of these savings, however, may not entirely offset the anticipated decline in sales margins in eastern Canada during 1997.





Our customers in the confectionery industry rely on Lantic to provide the highest quality products. Lantic is a major supplier of refined sugar in central and eastern Canada.



BC Sugar

United States Operations

(In Thousands of Dollars)	1996	1995
Revenues	**$ 360,510**	$ 321,159
Operating earnings (loss)	**$ 6,107**	$ (9,886)
Assets employed	**$ 152,009**	$ 132,765

BC Sugar's U.S. operations reported revenues of $361 million in the year ended September 30, 1996 versus $321 million for fiscal 1995. Operating earnings were $6.1 million compared to an operating loss of $9.9 million last year.

Market

In 1996, U.S. beet sugar production was down 14 percent from 1995, affording increased opportunity for cane sugar deliveries. Cane refiners were able to respond to increased refined sugar demand by importing additional raw sugar and utilizing their excess capacity to satisfy the daily needs of major industrial and retail customers. Refined prices moved up and improved margins were achieved.

Sugar consumption increased by 2.8 percent in 1996, reversing last year's no-growth situation, and putting the U.S. back on the 2.0 percent growth trend line of the past five years. RSI took advantage of improved market conditions to increase sales volumes as well as margin returns.

Operations

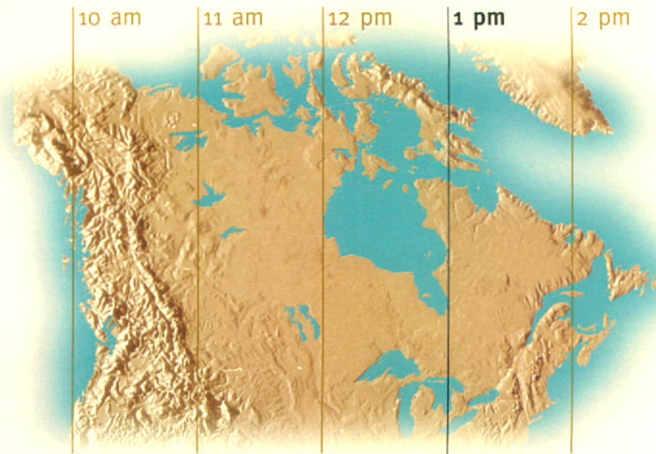
The combination of improved margins and cost savings realized from initiatives taken over the last several years led to the turnaround in earnings at RSI in 1996.

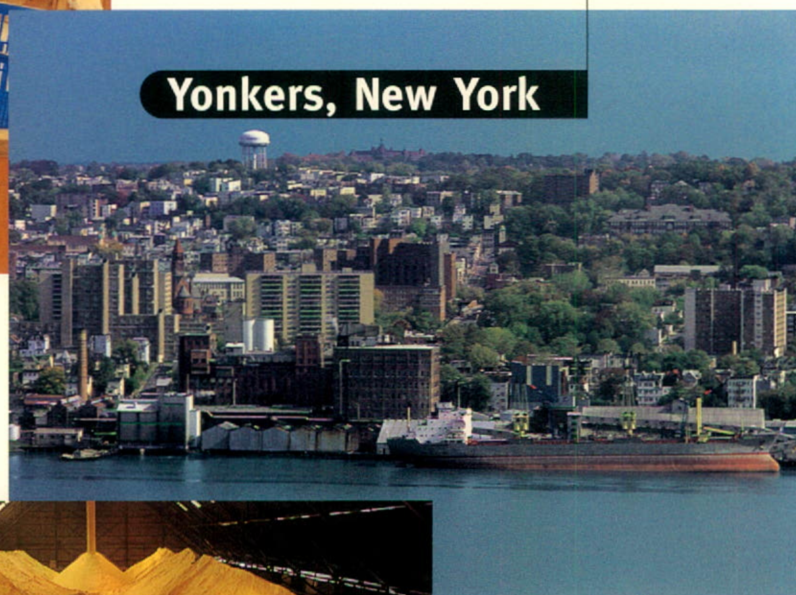
The Pay For Skills program initiated during 1995 was expanded in 1996 to include finished product packaging areas. This initiative has permitted the consolidation of various diverse work groups into a more cohesive and productive unit.

As sales demand increased, a universal production schedule was initiated in the refinery in March, 1996. This has enabled production to continue with minimum downtime to satisfy the increased customer demand. While the universal schedule has put an unprecedented strain on the refinery, revised preventative maintenance procedures have allowed sales opportunities to be pursued, while at the same time maintaining the integrity of the refinery.

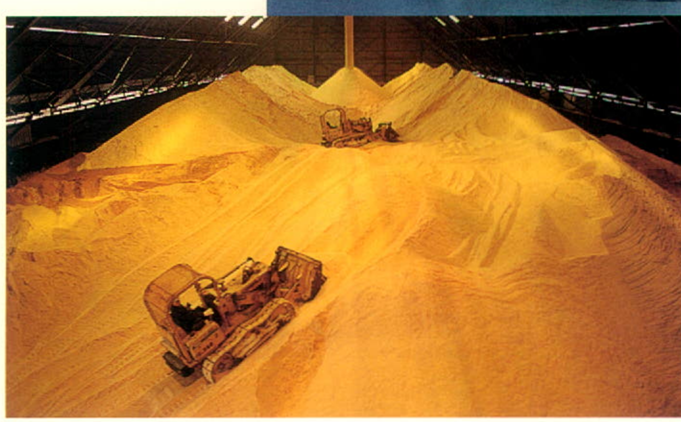
In spite of the increased operating schedule, fiscal 1996 saw continued improvements in RSI's safety record. Lost time days were down significantly from the previous year, and overall accident frequency and severity were the lowest in the last four years.

Continuous Improvement Programs were augmented in 1996 with concentration on energy, reprocess and refined product yield. These programs will continue in 1997, and aggressive goals have been set.





Our U.S. operations are well positioned to supply both the industrial and retail sugar markets. A number of initiatives have been implemented recently to improve operational efficiency at RSI's Yonkers, New York refinery.



Legislation Issues

Much time and effort was expended on reform of the Sugar Program in 1996. Amendment was defeated in Congress by only nine votes, and strong bipartisan support for reform will permit challenge of the Program for revision/amendment on an on-going basis. Significant improvement was achieved in the language of the amendment attached to the Agriculture Appropriations Bill passed by Congress in July. This resulted in the U.S. Department of Agriculture establishing a definitive formula setting the size of the fiscal 1997 Tariff Rate Import Quota and will allow RSI to better plan its business in 1997 and to take advantage of opportunities in the marketplace.

The following represent opportunities for further reform in 1997:

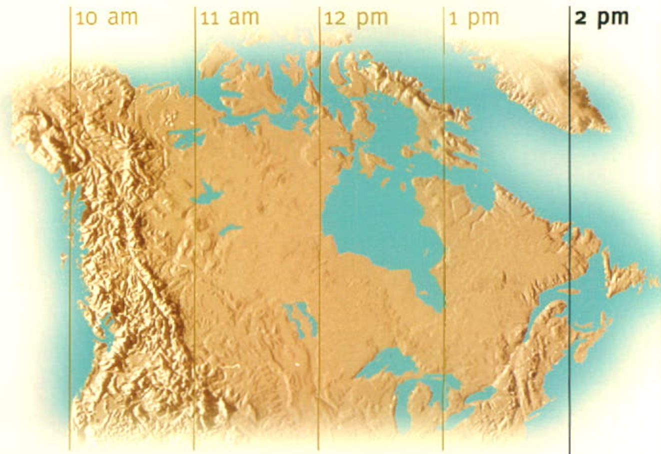
- The 1997 Agriculture Appropriations Bill
- Technical Corrections Bill
- Trade Bills to deal with Harmonized Tariff Schedules

Unlike previous farm legislation, all programs are now budget driven and are therefore subject to revision/amendment on an on-going basis during their 5-7 year cycle.

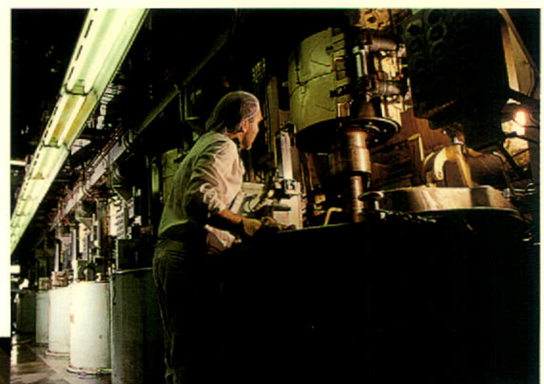
Outlook

The sales order book for 1997 is strong with good margins, and market opportunities will be pursued for further improvements.

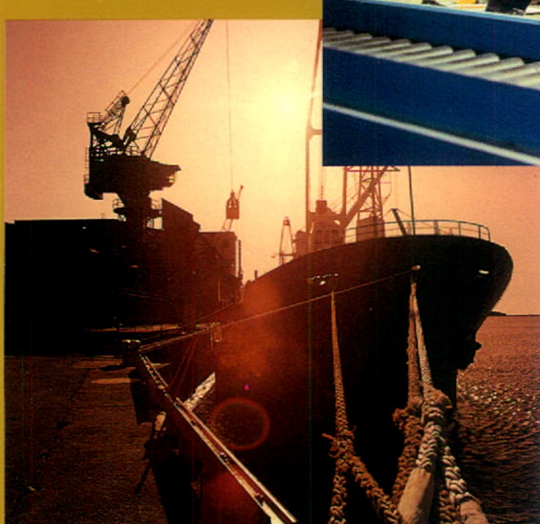
RSI's focus is beyond 1997, as continued strong demand is anticipated, and BC Sugar's U.S. operation is well positioned to take advantage of whatever opportunities the marketplace has to offer. With the continued support of its dedicated employees, RSI will succeed in an extremely competitive marketplace.



Saint John, New Brunswick



Our eastern Canadian operations include a refinery at Saint John, New Brunswick, a waterfront landmark since early in the century.



BC Sugar

Five Year Review

BC SUGAR REFINERY, LIMITED

Consolidated Balance Sheets (000's)

As at September 30	1996	1995	1994	1993	1992
Current assets					
Cash	$ 15,293	$ 4,046	$ 592	$ 1,105	$ 28,447
Accounts receivable	76,456	74,096	80,321	91,194	82,156
Inventories	105,267	78,707	87,946	86,883	84,591
Prepaid expenses	8,180	7,568	7,208	8,502	4,023
Deferred income taxes	3,598	4,217	6,670	3,434	3,067
	208,794	168,634	182,737	191,118	202,284
Investments and other assets	11,776	11,682	16,464	8,630	5,405
Fixed assets, net	134,927	136,084	142,301	194,511	191,247
Goodwill, net of accumulated amortization	140,935	144,948	148,962	152,976	158,695
Total assets	$ 496,432	$ 461,348	$ 490,464	$ 547,235	$ 557,631
Current liabilities					
Bank loans, secured	$ 5,498	$ 9,330	$ 18,379	$ 25,195	$ 53,287
Accounts payable and accrued liabilities	86,206	60,090	70,581	80,715	61,127
Current portion of long-term debt	11,099	9,715	10,289	19,452	10,920
	102,803	79,135	99,249	125,362	125,334
Long-term debt	118,230	131,236	140,203	206,148	250,432
Deferred revenue	35,435	35,029	35,894	–	–
Other liabilities	13,938	9,604	9,071	12,973	12,625
Deferred income taxes	7,726	6,802	3,881	13,626	13,837
	278,132	261,806	288,298	358,109	402,228
Share capital					
Common shares	155,613	155,613	155,613	155,613	136,363
Preferred shares	–	1,570	1,570	1,570	1,570
	155,613	157,183	157,183	157,183	137,933
Retained earnings	51,770	32,856	35,335	18,766	13,532
	207,383	190,039	192,518	175,949	151,465
Foreign exchange adjustment	10,917	9,503	9,648	13,177	3,938
	218,300	199,542	202,166	189,126	155,403
Total liabilities and shareholders' equity	$ 496,432	$ 461,348	$ 490,464	$ 547,235	$ 557,631

The consolidated balance sheets as at September 30, 1993 and 1992 include the balance sheets of Specialty Chemicals. The investment in Specialty Chemicals was previously recorded on a non-consolidated basis, and the presentation reflected above is consistent with principles of consolidation accounting adopted in 1993.

Certain figures for years 1994 and 1995 have been reclassified to conform with the presentation adopted for 1996.

CAPITALIZATION *(percentages)*

As at September 30	1996	1995	1994	1993	1992
Short-term debt	4.6	5.3	7.6	9.8	13.3
Long-term debt	32.8	36.8	37.4	45.5	51.7
Deferred income taxes	2.1	1.9	1.0	3.0	2.9
Equity – preferred	–	0.4	0.4	0.3	0.3
– common	60.5	55.6	53.6	41.4	31.8
Total	100.0	100.0	100.0	100.0	100.0

Consolidated Statements of Earnings (000's)

Years ended September 30	1996	1995	1994	1993	1992
Revenues	$ 848,554	$ 825,380	$ 790,331	$ 701,366	$ 276,327
Costs and expenses					
Cost of sales	719,445	726,394	684,843	590,209	219,283
Selling, general and administrative	51,207	44,958	44,426	41,727	19,963
Depreciation and amortization	16,464	16,091	16,120	16,210	6,811
Long-term debt interest	15,209	16,362	21,178	25,455	15,339
Other interest	343	652	869	335	2,244
Total costs and expenses	802,668	804,457	767,436	673,936	263,640
	45,886	20,923	22,895	27,430	12,687
Equity in earnings of Lantic Sugar	–	–	–	–	532
Earnings before non-recurring items and income taxes	45,886	20,923	22,895	27,430	13,219
Non-recurring items	–	–	17,025	–	1,639
Earnings before income taxes	45,886	20,923	39,920	27,430	14,858
Income taxes	17,001	13,435	13,384	12,407	3,164
Net earnings	$ 28,885	$ 7,488	$ 26,536	$ 15,023	$ 11,694

Certain figures for years 1992 through 1995 have been reclassified to conform with the presentation adopted for 1996.

Condensed Consolidated Statements of Changes in Financial Position (000's)

Years ended September 30	1996	1995	1994	1993	1992
CASH PROVIDED BY (USED FOR)					
Operations					
Cash from continuing operations	$ 45,992	$ 33,325	$ 25,040	$ 27,297	$ 18,594
Cash from discontinued operations	–	–	9,792	8,264	10,470
	45,992	33,325	34,832	35,561	29,064
Cash dividends paid	(9,971)	(9,967)	(9,967)	(9,567)	(9,486)
	36,021	23,358	24,865	25,994	19,578
Financing					
Net increase (decrease) in long-term debt	(11,637)	(9,545)	(75,104)	(35,948)	14,001
Issue of common shares, net of issue costs	–	–	–	18,873	71,405
Redemption of preferred shares	(1,570)	–	–	–	–
	(13,207)	(9,545)	(75,104)	(17,075)	85,406
Investments					
Investment in Lantic Sugar Limited	–	–	–	–	(120,500)
Net proceeds from sale of investments	–	–	78,223	–	33,483
Additions to fixed assets	(10,188)	(5,810)	(8,795)	(12,030)	(8,408)
Other	2,453	4,500	(7,566)	3,861	1,572
	(7,735)	(1,310)	61,862	(8,169)	(93,853)
Increase in cash	15,079	12,503	11,623	750	11,131
Cash of Lantic Sugar at commencement of consolidation accounting	–	–	–	–	8,933
Cash of Kalama Chemical, Inc. at date of disposal	–	–	(5,320)	–	–
	15,079	12,503	6,303	750	20,064
Cash, beginning of year	(5,284)	(17,787)	(24,090)	(24,840)	(44,904)
Cash, end of year	$ 9,795	$ (5,284)	$ (17,787)	$ (24,090)	$ (24,840)

Cash is defined as cash less current bank loans.

Five Year Review

BC SUGAR REFINERY, LIMITED

Financial Ratios and Data	Definition Reference	1996	1995	1994	1993	1992
Coverage ratios:						
Net tangible assets (times)	(1)	1.70x	1.45x	1.39x	1.23x	1.05x
Total debt to debt plus equity (%)	(2)	38.2%	43.0%	45.5%	57.0%	66.9%
Interest (times)	(3)	3.95x	2.23x	2.81x	2.06x	1.81x
Cash flow as % of total debt	(4)	36.3%	19.2%	21.9%	12.0%	5.1%
Preferred and common dividends (times)	(5)	2.90x	0.75x	2.66x	1.57x	1.23x
All fixed charges (times)	(6)	3.92x	2.21x	2.79x	2.05x	1.80x
Liquidity ratios:						
Net current assets ($millions)	(7)	$ 106.0	$ 89.5	$ 83.5	$ 65.8	$ 77.0
Current ratio	(8)	2.0:1	2.1:1	1.8:1	1.5:1	1.6:1
Net liquid assets (deficiency)($millions)	(9)	$ 0.7	$ 10.8	$ (4.5)	$ (21.1)	$ (7.6)
Short-term debt as % of working capital	(10)	15.7%	21.3%	34.3%	67.9%	83.4%
Accounts receivable turnover (times)	(11)	11.3x	10.7x	9.2x	9.7x	6.2x
Inventory turnover (times)	(12)	7.8x	8.7x	7.8x	8.1x	4.9x
Profitability ratios:						
Net margin (%)	(13)	3.4%	0.9%	3.4%	2.1%	4.2%
Asset turnover (times)	(14)	1.7x	1.8x	1.6x	1.5x	0.6x
EBIT as % of total assets	(15)	12.3%	8.1%	12.5%	11.6%	6.3%
Return on average common equity (%)	(16)	13.8%	3.7%	13.5%	8.7%	10.2%
Per common share data:						
Cash flow	(17)	$ 1.98	$ 1.17	$ 1.50	$ 1.26	$ 0.97
Book value equity	(18)	$ 8.83	$ 8.01	$ 8.11	$ 7.59	$ 6.77
Dividends		$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.60
Earnings:						
Before non-recurring items & discontinued operations		$ 1.17	$ 0.30	$ 0.38	$ 0.63	$ 0.61
Net earnings		$ 1.17	$ 0.30	$ 1.07	$ 0.63	$ 0.71
Share price range:						
High		$ 11.200	$ 9.625	$ 11.750	$ 11.625	$ 15.750
Low		$ 7.500	$ 7.500	$ 7.500	$ 8.250	$ 8.125
Share price earnings multiple:						
Earnings before non-recurring items & discontinued operations						
High		9.6x	32.1x	30.9x	18.5x	25.8x
Low		6.4x	25.0x	19.7x	13.1x	13.3x
Net earnings						
High		9.6x	32.1x	11.0x	18.5x	22.2x
Low		6.4x	25.0x	7.0x	13.1x	11.4x

Financial Ratios and Data

Coverage ratios

(1) **Net tangible assets** Total assets less current liabilities (net of current maturities of long-term debt), intangible assets, deferred revenue and deferred employee benefits – divided by – long-term debt plus current maturities of long-term debt.

(2) **Total debt to debt plus equity** The sum of short-term debt and long-term debt – divided by – the sum of short-term debt, long-term debt and preferred and common shareholders' equity.

(3) **Interest coverage** Net income plus income taxes, long-term interest and short-term interest minus equity in earnings – divided by – the sum of long-term interest and short-term interest.

(4) **Cash flow as % of total debt** Funds from continuing operations before changes in non-cash working capital – divided by – the sum of long-term debt and short-term debt.

(5) **Preferred and common dividends coverage** Net income – divided by – the sum of preferred and common dividends.

(6) **All fixed charges coverage** The sum of net income, interest expense and income taxes, less equity in earnings – divided by – the sum of interest expense and tax-effected preferred dividends.

Liquidity ratios

(7) **Net current assets** Current assets less current liabilities.

(8) **Current ratio** Current assets – divided by – current liabilities.

(9) **Net liquid assets** Current assets less inventories less current liabilities.

(10) **Short-term debt as % of working capital** Short-term debt (bank loans and current portion of long-term debt) – divided by – current assets less current liabilities.

(11) **Accounts receivable turnover** Sales – divided by – the average of sugar operations accounts receivable at the end of the year and at the beginning of the year.

(12) **Inventory turnover** Cost of sales – divided by – the average of sugar operations inventories at the end of the year and at the beginning of the year.

Profitability ratios

(13) **Net margin** Net income – divided by – sales, expressed as a percentage.

(14) **Asset turnover** Sales – divided by – total assets, net of Specialty Chemical assets, at the end of the year.

(15) **EBIT as % of total assets** Net income before long-term debt interest, income taxes and loss from discontinued operations – divided by – total assets, net of Speciality Chemical assets, at the end of the year.

(16) **Return on average common equity** Net income less preferred dividends – divided by – the average of shareholders' equity at the end of the year and at the beginning of the year.

Per common share data

(17) **Cash flow per common share** Funds from operations before changes in non-cash working capital – divided by – weighted average common shares outstanding.

(18) **Book value equity per common share** Common shareholders' equity – divided by – common shares outstanding at the end of the year.

Management's Discussion and Analysis

Overview

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto. All information is based on BC Sugar's fiscal year.

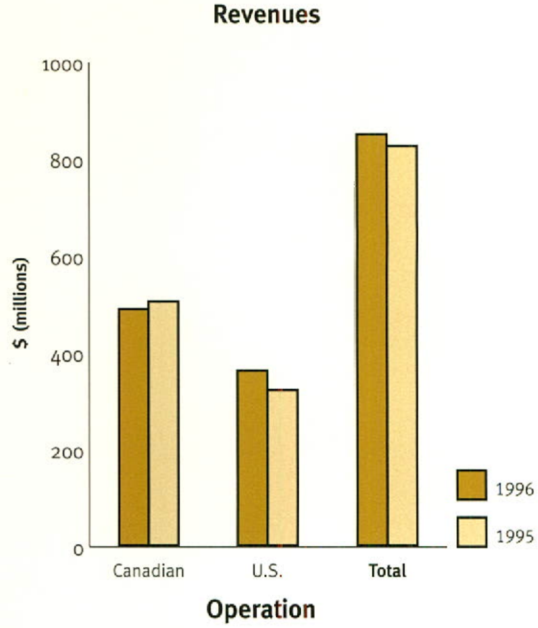
BC Sugar has sugar operations in Canada and in the United States. The Canadian operations include two wholly-owned subsidiaries: Rogers Sugar Ltd. ("Rogers"), which operates a cane sugar refinery located in Vancouver, British Columbia and sugar beet factories located in Taber, Alberta and Winnipeg, Manitoba, and Lantic Sugar Limited ("Lantic"), which operates cane sugar refineries in Saint John, New Brunswick, and Montreal, Quebec. The U.S. operations are represented by Refined Sugars, Inc. ("RSI"), which operates a cane sugar refinery in Yonkers, New York.

The Company retains certain environmental obligations relating to its former Specialty Chemical operations which were disposed of in fiscal 1994.

There were no significant changes to the organizational structure or operations of BC Sugar in 1996. The Company continued to follow its long-term strategic plan to concentrate on the sugar industry. The following discussion and analysis reviews the operating results for 1996 and comments on the risks and uncertainties which may affect the Company in the future.

Results of Operations

Revenues have increased by $23.2 million or 2.8 percent in 1996 over revenues reported in 1995. This increase is due to a $39.4 million increase in revenues of RSI, offset by a $16.2 million decrease in revenues from Canadian operations.



The increase in RSI's revenues is attributed to a reduced U.S. sugar beet crop resulting in a lower supply of refined beet sugar in the U.S. market. Cane refiners such as RSI benefitted from consequent higher sales volumes and prices in 1996.

In Canada, a lower world price of raw sugar, combined with intense domestic competition and further limitations on export sales to the U.S., resulted in reduced revenues. These negative factors were partially offset by the near elimination of dumped and subsidized imports from the U.S. and European Union, following the imposition of duties by Revenue Canada on July 7, 1995.

In Canada, changes in the world price of raw sugar are passed on to customers. Accordingly, changes in the world price of raw sugar have a significant effect on revenues. In 1996, the world price of raw sugar decreased, and revenues decreased as a direct result.

In the first half of fiscal 1996, Canadian operations reported increased sales volumes and margins as a result of the elimination of dumped and subsidized imports. Duties imposed by Revenue Canada on dumped and subsidized sugar in 1995 virtually eliminated these imports in 1996.

Announcement of a refinery expansion by a domestic competitor created anticipation of over-capacity in the Canadian refined sugar market, resulting in lower sales volumes and margins for Canadian operations in the latter half of the fiscal year.

The change by the United States to a yearly global refined sugar quota of 22,000 metric tonnes, effective October 1, 1995, resulted in a decline in export volumes by Canadian operations of approximately 53 percent in fiscal 1996.

Gross margin (Revenues less Cost of Sales) has increased by $30.1 million, from $99.0 million in 1995 to $129.1 million in 1996. The increase in gross margin is due mainly to the following:

- In the U.S., an increase in both volumes sold and margins, due to lower domestic beet sugar production; and
- In Canada, a recovery from depressed margin levels with the effective curtailment of imports of dumped and subsidized sugar, partially offset by the loss of high margin export sales volumes to the U.S. and intense domestic competition in the latter half of fiscal 1996.

Earnings before income taxes have increased to $45.9 million in 1996 from $20.9 million in 1995, due to the increase in gross margins of $30.1 million (described above) and a decrease in interest expense of $1.5 million, offset by a $6.2 million increase in selling, general and administrative expenses and a $0.4 million increase in depreciation and amortization.

The decrease in interest expense is due to long-term debt repayments of $11.6 million in the current year, lower interest rates on short-term borrowings and reduced short-term borrowings.

Selling, general and administrative expenses have increased by $6.2 million due to the net effect of the following:

- Increased freight and distribution costs due to the loss of the maritime freight subsidy;
- Increase in pension expense;
- Provision for restructuring costs for the Company's eastern Canadian operations; and
- Cost reductions resulting from prior year restructuring of the Company's western Canadian operations.

Income Taxes

The Company's effective income tax rate for 1996 is 37.1 percent, 0.4 percent higher than the combined basic Canadian federal and provincial income tax rate for a Canadian manufacturing company. The effective tax rate includes significant offsetting variations from the combined basic rate as follows:

- Earnings from RSI did not attract tax expense because of the application of tax losses carried forward, resulting in a decrease of 5.2 percent in the effective tax rate; and
- Non-deductible expenses, primarily the amortization of goodwill, resulting in an increase of 5.6 percent in the effective tax rate.

RSI has approximately U.S. $19 million in net accounting tax losses carried forward, meaning future earnings of U.S. $19 million by RSI will attract no income tax expense. These losses expire in years 2005 to 2010.

Earnings

In 1996, BC Sugar recorded net earnings of $28.9 million or $1.17 per share compared to $7.5 million or $0.30 per share in 1995. The increases in earnings and earnings per share are due to items discussed previously.

Liquidity and Capital Resources

Cash provided from operations in 1996 was $46.0 million. The Company utilized cash from operations to pay dividends of $10.0 million, reduce long-term debt by $11.6 million, redeem all of its preferred shares for $1.6 million and upgrade plant and equipment by $10.2 million. The net result of the above activities, along with the realization of cash from some of the Company's miscellaneous investments, resulted in a net cash inflow of $15.1 million for 1996.

Cash requirements for working capital and capital expenditures have historically been met with funds generated from operations. Management has reviewed projected cash flows for 1997 and has compared these to normal ongoing requirements for dividends, capital improvements, interest and debt repayments. It is estimated that these requirements will be met by funds generated from operations.

As at September 30, 1996, the Company had cash and operating lines of credit of approximately $160 million of which $5 million were utilized. These lines of credit are subject to certain bank margin requirements which would limit utilization as at September 30, 1996 to $109 million.

Financial Position

Inventories and accounts payable have increased significantly from September 30, 1995 as a consequence of raw sugar shipments received at RSI and Lantic immediately prior to the year end.

Goodwill

Goodwill of $141 million, which arose on the acquisition of Lantic and RSI, continues to be a significant asset on the balance sheet. As part of management's review of future operations, which takes into consideration all relevant industry and external factors affecting the business, management has assessed whether future cash flows will be sufficient for the Company to realize its investment from all of its assets, including goodwill.

Management is of the view, using the non-discounted net cash flow basis of measurement, that there is no permanent impairment in value of goodwill. Should there be a change in external factors or other matters affecting the business, the appropriate adjustment would be made to the financial statements.

External and Industry Factors Impacting Operating Results

BC Sugar's sugar products are marketed in western Canada by Rogers, in eastern Canada by Lantic and in the eastern United States by RSI. The sales volume and pricing of these products are not significantly affected by adverse changes in the economy.

Canadian Operations In response to an increase in dumped and subsidized refined sugar entering Canada from the United States and the European Union, Revenue Canada imposed preliminary duties on imports from these countries on July 7, 1995. Revenue Canada's final determination confirming this preliminary finding was made on October 5, 1995.

On November 6, 1995, the Canadian International Trade Tribunal ("CITT") confirmed that dumped and subsidized sugar from the United States and the European Union was threatening material injury to the Canadian sugar industry.

On April 4, 1996, after an investigation into the question of whether the imposition of duties on refined sugar was in the public interest, the CITT ruled that there was no public interest issue which warranted the reduction of the duties. Existing duties are expected to remain in place until at least the latter part of the year 2000.

As a result of these duties, imports from the United States and the European Union were effectively curtailed after July 7, 1995, and the profitability of the Company's Canadian operations increased.

The Company faces competition from refined sugar produced in Canada, refined sugar imported from other countries and high fructose corn syrup, particularly when world sugar prices rise. In December, 1995, a domestic competitor announced an expansion of its Toronto refinery. The completed expansion will cause domestic capacity to exceed current demand for refined and specialty sugar products and will place further downward pressure on sales margins already depressed in the latter half of 1996.

On October 1, 1995, the U.S. imposed a new 22,000 tonne global quota for refined and specialty sugar products entering the United States. This new quota system allows different countries to export refined and specialty sugar products into the U.S. until the global quota has been reached. Consequently, the Company's exports to the U.S. declined from 40,000 tonnes in 1994 and 37,000 tonnes in 1995 to approximately 18,000 tonnes in 1996. Further declines are expected in future years as more countries compete to participate in the global quota.

U.S. Operations The Company's U.S. operations are affected by the Sugar Program provisions of the U.S. Farm Bill ("Farm Bill") which maintains the price of raw sugar in the U.S. above world raw sugar prices. The Farm Bill provides price support for U.S. raw cane sugar and refined beet sugar producers at levels that encourage excessive production of domestic beet sugar.

In years when sugar beet planting, growing and harvesting conditions are unfavourable, as they were in 1996, lower beet sugar production enables greater market penetration by cane refiners. The lower beet sugar production level in 1996 led to increases in cane sugar volumes and margins, and a return to profitability for the U.S. operation.

Effects of Changing Prices and Foreign Exchange Rates

The Company does not believe its business is impacted by inflation to a greater extent than the general economy. The Company monitors the impact of inflation and attempts to adjust prices where market conditions permit. Inflation did not have a significant effect on sales levels during fiscal 1996 or 1995.

The Company operates in the sugar industry, and to protect itself against fluctuations in raw sugar prices, enters into commodities futures contracts on regulated futures markets for the purpose of hedging sugar inventories and related purchase and sale commitments. The Company's hedging policy is to hedge future purchase and sale commitments of sugar and the related U.S. dollar exchange exposures so that the Company is not exposed to world raw sugar price or foreign exchange fluctuations.

The Company's cumulative translation account recorded on the balance sheet in the amount of $10.9 million reflects the increase in the Company's net investment in RSI due to the changes in foreign exchange rates from the date of acquisition to September 30, 1996. The cumulative translation account increased to $10.9 million from $9.5 million in 1995 due to a higher U.S. dollar exchange rate at September 30, 1996 than at September 30, 1995.

Environmental Obligations

The Company disposed of its Specialty Chemical operations in 1994, resulting in net proceeds exceeding the total carrying value of the Specialty Chemical operations by $35.9 million. The recognition of the excess proceeds as income has been deferred because the Company has retained responsibility for certain historical environmental obligations at the Kalama plant located in Kalama, Washington, the Garfield plant located in Garfield, New Jersey, a former manufacturing plant located in Beaufort, South Carolina, several Superfund sites located in the United States and a former manufacturing plant located in Delta, British Columbia.

The excess of net proceeds over carrying value of the Company's former Specialty Chemical operations is recorded on the balance sheet as deferred revenue and will continue to be deferred until such time as future expenditures and third party recoveries relating to the environmental obligations retained are determinable. Any expenditures not covered by the Trust (discussed below) relating to the environmental obligations will be recorded against deferred revenue as incurred. In 1996, the Company incurred $690,000 in direct environmental and other related expenditures and received $1.5 million from Kalama Trading Partnership, an asset retained as part of the Kalama sale arrangement. Receipts in excess of Kalama Trading Partnership's book value in the amount of $1.1 million were added to the deferred revenue account. As a result of these transactions, the deferred revenue account increased from $35.0 million in 1995 to $35.4 million at September 30, 1996.

A Trust was established as a condition of the Kalama sale to deal with the historical environmental obligations of Kalama, and any recoveries from insurance carriers or other third parties are required to be paid into the Trust. Kalama is entitled to receive reimbursement from the Trust for any expenditures relating to the historical environmental obligations of Kalama.

At September 30, 1996, the Trust held approximately U.S. $5.6 million in cash and U.S. $1.1 million in receivables. Management has reviewed the estimated environmental expenditure obligations for the next fiscal year and expects that there will be sufficient funds in the Trust to meet these obligations.

The Company does not expect that the uncertainties relating to the environmental liabilities of Specialty Chemical operations will be fully determinable in the near future, which the Company defines for these purposes as a minimum of the next five years.

Management has reviewed the environmental obligations and has consulted with environmental consultants, legal advisors and former owners of the Specialty Chemical operations to determine whether the deferred revenue and amount held in the Trust will be sufficient to discharge such obligations. Based on these discussions, management is of the view that the deferred revenue of $35.4 million, cash held by the Trust of U.S. $5.6 million and Trust receivables of U.S. $1.1 million will be sufficient to offset the environmental obligations as they become due.

Outlook

Canadian Operations Management does not expect any significant change in the supply, demand or pricing of world raw sugar over the foreseeable future. The 1995 imposition of duties on dumped and subsidized imported refined sugar will ensure that foreign producers compete fairly in the Canadian market.

The Company anticipates excess capacity in the Canadian sugar refining industry in 1997, resulting in lower prices and margins for Canadian operations. The introduction of restructuring programs in Lantic and Rogers will reduce costs and expenses in future years and lessen the effect of reduced margins.

The Company continues to evaluate its long-term strategic plan and has substantially completed its goal of disposing of non-sugar operations, while making significant progress on the restructuring of Canadian operations so as to lower future operating costs.

U.S. Operations The 1996 Farm Bill was renewed for seven years with only minor modifications to the Sugar Program. An amendment to the Agriculture Appropriations Bill which would have limited raw sugar prices was closely defeated in the U.S. Senate. RSI will continue to seek reform to the Sugar Program provisions of the current Farm Bill.

The U.S. 1996-97 sugar beet crop is currently forecasted at four percent below last year and fourteen percent lower than two years ago. The reduced crop will present opportunities for further margin improvements in the 1997 fiscal year for RSI. RSI has already entered into sales commitments for a significant portion of its 1997 production at margins above those of 1996 levels.

RSI's major cost reduction programs undertaken over the past several years have resulted in significant improvements in operating efficiencies. RSI is well positioned to take advantage of the anticipated improved operating environment in 1997.

Management's Responsibility

The consolidated financial statements contained in this Annual Report have been prepared in accordance with generally accepted accounting principles. Management is responsible for the integrity and objectivity of the data in these consolidated financial statements. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

In support of its responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. Some of the assets and liabilities include amounts which are based on estimates and judgements as their final determination is dependent on future events. Management has determined such amounts on a reasonable basis in order to present the financial statements fairly in all material respects.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee. The Audit Committee consists of four directors who are not involved in the daily operations of the Company. The functions of the committee are to: review the system of internal controls; review and approve the consolidated financial statements; review any relevant accounting, financial and security regulatory matters; and recommend the appointment of external auditors. The Audit Committee meets on a regular basis with management and the auditors of the Company to satisfy itself that their responsibilities have been properly discharged.

The consolidated financial statements have been reviewed by the Audit Committee, which recommended their approval by the Board of Directors. The external auditors, KPMG, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full access to management and the Audit Committee. Their independent professional opinion on these consolidated financial statements is included in the Auditors' Report.

William C. Brown
President and
Chief Executive Officer
Vancouver, Canada
November 8, 1996

James W. Hudson
Vice President, Finance and
Chief Financial Officer

Auditors' Report

To the Shareholders of BC Sugar Refinery, Limited:

We have audited the consolidated balance sheets of BC Sugar Refinery, Limited as at September 30, 1996 and 1995 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These consolidated 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 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 Company as at September 30, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants
Vancouver, Canada
November 8, 1996

Consolidated Balance Sheets

September 30, 1996 and 1995

(In thousands of dollars)	1996	1995
Assets		
Current assets:		
Cash	$ 15,293	$ 4,046
Accounts receivable	76,456	74,096
Inventories	105,267	78,707
Prepaid expenses	8,180	7,568
Deferred income taxes	3,598	4,217
	208,794	168,634
Investments and other assets (note 2)	11,776	11,682
Fixed assets, net (note 3)	134,927	136,084
Goodwill, net of accumulated amortization (note 3)	140,935	144,948
	$ 496,432	$ 461,348
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank loans, secured	$ 5,498	$ 9,330
Accounts payable and accrued liabilities	86,206	60,090
Current portion of long-term debt (note 4)	11,099	9,715
	102,803	79,135
Long-term debt (note 4)	118,230	131,236
Deferred revenue (note 5)	35,435	35,029
Other liabilities (note 6)	13,938	9,604
Deferred income taxes	7,726	6,802
	278,132	261,806
Shareholders' equity:		
Share capital (note 7):		
Common shares	155,613	155,613
Preferred shares	–	1,570
	155,613	157,183
Retained earnings	51,770	32,856
	207,383	190,039
Foreign exchange adjustment	10,917	9,503
	218,300	199,542
Environmental obligations (note 5)		
Contingent liabilities (note 10)		
Financial instruments (note 11)		
	$ 496,432	$ 461,348

See accompanying notes to consolidated financial statements.

Approved by the Board:

William C. Brown
Director

John W. Pitts
Director

Consolidated Statements of Earnings

Years ended September 30, 1996 and 1995

(In thousands of dollars)	1996	1995
Revenues	$ 848,554	$ 825,380
Costs and expenses:		
Cost of sales	719,445	726,394
Selling, general and administrative	51,207	44,958
Depreciation and amortization	16,464	16,091
Long-term debt interest	15,209	16,362
Other interest	343	652
	802,668	804,457
Earnings before income taxes	45,886	20,923
Income taxes (note 8)	17,001	13,435
Net earnings	$ 28,885	$ 7,488
Net earnings per common share (note 12)	$ 1.17	$ .30

Consolidated Statements of Retained Earnings

Years ended September 30, 1996 and 1995

(In thousands of dollars)	1996	1995
Retained earnings, beginning of year	$ 32,856	$ 35,335
Net earnings	28,885	7,488
	61,741	42,823
Dividends	9,971	9,967
Retained earnings, end of year	$ 51,770	$ 32,856

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years ended September 30, 1996 and 1995
(In thousands of dollars)

	1996	1995
Cash provided by (used in):		
Operations:		
Funds provided from operations (below)	$ 48,923	$ 28,909
Changes in non-cash working capital	(2,931)	4,416
Cash from operations	45,992	33,325
Cash dividends paid	(9,971)	(9,967)
	36,021	23,358
Financing:		
Repayment of long-term debt	(11,637)	(9,545)
Redemption of preferred shares	(1,570)	–
	(13,207)	(9,545)
Investments:		
Additions to fixed assets	(10,188)	(5,810)
Receipts from Kalama Trading Partnership	1,537	3,753
Expenditures charged to deferred revenue	(690)	(865)
Other	1,606	1,612
	(7,735)	(1,310)
Increase in cash	15,079	12,503
Cash, beginning of year	(5,284)	(17,787)
Cash, end of year	$ 9,795	$ (5,284)

Cash is defined as cash less current bank loans.

Funds Provided from Operations

Years ended September 30, 1996 and 1995
(In thousands of dollars)

	1996	1995
Net earnings	$ 28,885	$ 7,488
Depreciation and amortization	16,464	16,091
Deferred income taxes	1,535	5,376
Other	2,039	(46)
	20,038	21,421
Funds provided from operations	$ 48,923	$ 28,909

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended September 30, 1996 and 1995

1. **Significant accounting policies:**

(a) *Basis of presentation:*

The consolidated financial statements include the accounts of the wholly-owned subsidiary companies, Rogers Sugar Ltd. ("Rogers"), Lantic Sugar Limited ("Lantic"), and Refined Sugars, Inc. ("RSI").

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

(b) *Revenue recognition:*

Revenue is recognized at the time sugar products are shipped to customers.

(c) *Inventories:*

Cane sugar inventory is valued at the lower of cost and net realizable value. Rogers values a base quantity of 35,000 tonnes of cane sugar at $85 per tonne, which is less than market value.

Beet sugar inventory and all other inventories are valued at the lower of cost and net realizable value.

(d) *Futures transactions:*

The Company, in the normal course of business, enters into commodities futures contracts on regulated futures markets for the purpose of hedging sugar inventories and related purchase and sale commitments. Hedging gains and losses on purchase and sale commitments are included in inventories. Any gain or loss on the unhedged commitments is recognized currently.

(e) *Fixed assets:*

Fixed assets are stated at cost. Depreciation is provided over the estimated useful life of the related asset. Assets are depreciated by Rogers on the diminishing balance basis and by Lantic and RSI on the straight-line basis as follows:

Assets	Rate (percent)
Buildings and improvements	2.5 – 25
Plant and equipment	5 – 30
Furniture and fixtures	20 – 30

(f) *Goodwill:*

Goodwill is amortized on a straight-line basis at 2.5 percent per annum. Amortization for the year amounts to $4,014,000 (1995 – $4,014,000).

The Company regularly evaluates the net carrying value of goodwill, which relates to Lantic and RSI, for possible impairment in value. Impairment would be recognized if the net carrying value was not expected to be recovered in the future. Such evaluations include:

- comparison of current and anticipated operating earnings and unamortized goodwill balance and amortization amounts;
- assessment of future operating trends; and
- consideration of regulatory environment, sweetener market trends and other relevant factors.

The basis for measurement of this recovery is management's expectation of future non-discounted, after-tax earnings from the operations of Lantic and RSI.

(g) *Income taxes:*

Current deferred income taxes are provided on timing differences between the Company's basis of valuing its sugar inventories and that permitted for income tax purposes.

Non-current deferred income taxes are provided on timing differences which result primarily from claiming capital cost allowances in excess of depreciation and on income tax benefits from the utilization of Chatterton's losses and from deferred pension costs.

(h) *Foreign currency translation:*

The U.S. operations of RSI are considered self-sustaining. Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date (1996 – 1.3629; 1995 – 1.3402). Statement of earnings items are translated at average exchange rates (1996 – 1.3662; 1995 – 1.3754). Gains and losses on translation of these foreign operations are included in the foreign exchange adjustment component of shareholders' equity.

1. **Significant accounting policies (continued):**

(i) *Pension expense and obligation:*
Assets of the defined benefits pension plans are recorded at values which are adjusted to market over a period of five years. Pension expense includes amortization of past service costs, experience gains and losses and the difference between pension fund assets and the actuarial value of accrued pension benefits. These amounts are amortized on a straight-line basis over the expected average remaining service life of the plan participants. Actuarial valuations of the Company's pension plans are performed at least once every three years.

2. **Investments and other assets:**

(In thousands of dollars)	1996	1995
Deferred pension costs	$ 6,416	$ 5,452
Real estate development properties	2,434	2,434
Long-term receivable	1,542	3,015
Other	1,384	781
	$ 11,776	$ 11,682

Deferred pension costs represent the excess of amounts funded over the provision for pension costs at the balance sheet date for certain of the Company's pension plans.

Investment in real estate development properties is recorded on the equity basis.

3. **Fixed assets and goodwill:**

(In thousands of dollars)			1996
	Cost	Accumulated depreciation	Net book value
Land	$ 5,568	$ –	$ 5,568
Buildings and improvements	39,553	16,080	23,473
Plant and equipment, furniture and fixtures	218,959	119,345	99,614
Capital assets held for resale	6,272	–	6,272
	$ 270,352	$ 135,425	$ 134,927
Goodwill	$ 160,552	$ 19,617	$ 140,935

(In thousands of dollars)			1995
	Cost	Accumulated depreciation	Net book value
Land	$ 5,520	$ –	$ 5,520
Buildings and improvements	39,021	14,971	24,050
Plant and equipment, furniture and fixtures	207,805	108,039	99,766
Leasehold improvements	356	81	275
Capital assets held for resale	6,473	–	6,473
	$ 259,175	$ 123,091	$ 136,084
Goodwill	$ 160,552	$ 15,604	$ 144,948

Capital assets held for resale are recorded at the lower of depreciated cost and estimated realizable value.

4. Long-term debt:

(In thousands of dollars)	1996	1995
Rogers Sugar Ltd.		
Bank term loan bearing interest at prime plus 0.25% (1995 – prime plus 0.25%), maturing March 31, 2001	$ 43,750	$ 51,500
Lantic Sugar Limited		
12.500 % Series "A" first mortgage bonds	20,576	21,347
12.125 % Series "B" first mortgage bonds	18,398	19,704
11.750 % Series "C" first mortgage bonds	12,917	13,325
9.550 % Series "D" first mortgage bonds	13,939	14,279
9.850 % Series "E" first mortgage bonds	18,630	19,070
Refined Sugars, Inc.		
9.30 % and 9.80 % notes payable	669	1,012
Other	450	714
	129,329	140,951
Less current portion of long-term debt	11,099	9,715
	$ 118,230	$ 131,236

Rogers Sugar Ltd.:

The bank term loan has scheduled quarterly repayments of $1,750,000 in 1997 and 1998, $2,000,000 in 1999 and 2000 and the remaining balance of $13,750,000 is due in 2001.

The Company has entered into an interest rate swap arrangement which reduces by $1,750,000 per quarter and which matures March 31, 1998. Under the arrangement, interest is fixed at 10.13 percent per annum on an outstanding notional amount. At September 30, 1996 this was $43,750,000.

The long-term debt and interest rate swap arrangement are secured on an equal basis by a general security agreement creating a first charge over all the assets except for inventories and receivables of Rogers, together with a share pledge of all common shares of Lantic.

Lantic Sugar Limited:

The Series "A" first mortgage bonds are repayable in semi-annual blended instalments of $1,708,485 beginning June 1, 1988 with a final instalment of $14,176,819 due December 1, 2002.

The Series "B" first mortgage bonds are repayable in semi-annual blended instalments of $1,828,385 beginning January 1, 1990 and maturing July 1, 2004.

The Series "C" first mortgage bonds are repayable in semi-annual blended instalments of $981,261 beginning January 1, 1990, with a final instalment of $8,246,391 due July 1, 2004.

The Series "D" first mortgage bonds are repayable in semi-annual blended instalments of $847,405 beginning May 1, 1993, with a final instalment of $7,462,931 due November 1, 2007.

The Series "E" first mortgage bonds are repayable in semi-annual blended instalments of $1,153,618 beginning May 1, 1993, with a final instalment of $10,094,080 due November 1, 2007.

The interest in certain leases of Lantic and a Deed of Trust and Mortgage carrying a specific charge on certain fixed assets not otherwise pledged by Lantic have been pledged as security for the Series "A", Series "B", Series "C", Series "D" and Series "E" first mortgage bonds. The Deed also contains certain restrictions and covenants relating to the creation of additional long-term debt and distributions to the shareholder.

Refined Sugars, Inc.:

The 9.80 percent and 9.30 percent notes payable are repayable in monthly instalments of U.S. $17,624 and U.S. $9,324, respectively, until their maturity on April 30 and June 30, 1998, respectively.

Consolidated long-term debt repayment:

Required principal payments in each of the next five years are as follows:

(In thousands of dollars)	
1997	$ 11,099
1998	11,416
1999	12,630
2000	13,178
2001	19,572

5. Deferred revenue:

(a) Summary of provision:

Kalama Chemical, Inc. (Kalama), a former wholly-owned subsidiary, and Chatterton Petrochemical Corporation (Chatterton) collectively comprised the Company's investment in Specialty Chemicals. The investment in Specialty Chemicals was disposed of on May 26, 1994 with the sale of Kalama. The amount of the sales proceeds, less the carrying value of the investment adjusted for cost of disposition and assets retained, has been deferred because of uncertainties regarding the resolution of certain environmental warranties and potential third party recoveries related thereto. Expenditures associated with ongoing environmental remediations, as described below, are charged to deferred revenue as incurred.

The deferred revenue relating to Specialty Chemicals is as follows:

(In thousands of dollars)

Net proceeds from disposition	$	78,223
Less carrying value of investment in Specialty Chemicals		(57,135)
Add assets retained and income tax benefits from Chatterton's losses		14,806
		35,894
Add receipts in excess of book value of assets retained		1,096
Less expenditures incurred after date of disposal:		
Cumulative to September 30, 1995		(865)
Year ended September 30, 1996		(690)
Balance, September 30, 1996	$	35,435

(b) Kalama environmental obligations:

As part of the Kalama sale agreement, a trust was established to fund the historical environmental obligations of the Kalama sites. These obligations include specific environmental site investigation and clean up activities at the Kalama and Garfield sites, a former manufacturing operation and several Superfund sites. Certain remediation costs, which may be significant, together with the actual recoveries from other participants are not determinable at this time.

Under the terms of the Trust Agreement, Kalama is required to pay any recoveries received from the former owners, insurance carriers or other third parties into the Trust. As at September 30, 1996, the Trust held cash of U.S. $5.6 million (1995 – U.S. $3 million) and receivables of U.S. $1.1 million (1995 – U.S. $1.1 million). Kalama will discharge the environmental obligations with funds from the Trust as long as there are sufficient monies in the Trust. If the obligations exceed the amounts held in, or received by, the Trust in the future, the Company will be required to indemnify the purchaser of the Kalama shares against the future obligations.

The maximum exposure to the Company under the Kalama sale agreement, relating to Kalama's historical environmental issues, is the original amount of U.S. $44 million less qualifying expenditures of U.S. $5.4 million for a current exposure of U.S. $38.6 million. The qualifying expenditures are subject to agreement among the parties.

(c) Chatterton site:

The Company, through Chatterton, which ceased operating in June, 1992, and in conjunction with a previous owner of the site, is co-operating with regulatory authorities to investigate and remediate historical soil and groundwater conditions at the Delta, British Columbia site. Chatterton has submitted a remediation plan for approval by the Province of British Columbia and has held ongoing discussions with the previous site owner with respect to participation in the cost of remediation. It is not possible at this time to estimate the Company's final costs.

(d) Overall:

Management continues, on a regular basis, to review new technologies, consult with environmental experts and investigate opportunities to effectively manage future environmental liabilities. Management believes there will be no material effect on future earnings although there may be an effect on future cash resources.

6. Other liabilities:

Other liabilities include health care and insurance benefits provided by the Company's subsidiary, RSI, and an excess of pension costs over the amounts funded for certain of the Company's pension plans.

7. **Share capital:**

	1996	1995
Common shares outstanding at September 30:		
Class A	23,813,913	23,800,102
Class B	908,001	921,812
	24,721,914	24,721,914
Preferred shares carrying a cumulative dividend of $1.00 per share and redeemable at $20.00 per share	–	78,500

(a) Class A and B shares have equal voting rights, rank equally with respect to dividends and are convertible into one another on a share-for-share basis.

(b) Under the terms of the Shareholders Rights Plan, rights are attached to the common shares. The Shareholder Rights Plan is designed to deter an acquisition of control by a bidder in a transaction that does not, or a series of transactions that do not, treat all shareholders equally or fairly, or afford all shareholders an equal opportunity to share in a premium paid arising upon an acquisition of control. The rights become marketable and exercisable only after certain specified events related to an acquisition or announcement of an intention to acquire 20% or more of the outstanding common shares. The rights entitle each holder of common shares to acquire Class A common shares at a 50% discount to the prevailing market price. The rights remain outstanding until May 1998, unless redeemed earlier by the Board of Directors.

(c) The Company has a share option plan for key employees. To date, options have been granted to acquire 440,000 (1995 – 440,000) Class A common shares at prices from $7.875 to $17.25 per common share.

The Company has reserved 2,400,000 Class A common shares for possible future issuance under this plan.

(d) The Company redeemed all its preferred shares during the year for the redemption price of $20 per share.

8. **Income taxes:**

The Company's effective income tax rate comprises the following:

	1996	1995
Combined basic Canadian federal and provincial income tax rate	43.5%	43.5%
Manufacturing and processing profits deduction	(6.8)	(6.8)
Losses of subsidiary not tax effected	–	21.5
Application of subsidiary's losses carried forward	(5.2)	–
Non-taxable adjustments and other	5.6	6.0
Effective income tax rate	37.1%	64.2%

(In thousands of dollars)	1996	1995
Actual provision for income taxes:		
Current	$ 15,466	$ 8,059
Deferred	1,535	5,376
	$ 17,001	$ 13,435

At September 30, 1996, the Company, through RSI, has approximately the following losses carryforward, the benefits of which have not been recorded in these consolidated financial statements:

(In thousands of US dollars)	1996
Losses carryforward for tax purposes expiring in years 2005 to 2010	$ 35,822
Less timing differences caused primarily by tax depreciation in excess of that booked for accounting purposes	16,658
Losses carryforward for accounting purposes	$ 19,164

9. **Pension plans:**

The Company maintains defined benefit pension plans. Actuarial valuations of these pension plans are carried out periodically and provide estimates of the present value of accrued pension benefits at a point in time, calculated on the basis of various assumptions with respect to pension plan costs and rates of return on investments.

(In thousands of dollars)	1996	1995
Present value of accrued benefits	$ 111,723	$ 105,784
Pension funds assets	$ 120,689	$ 111,238

The Company amortizes the difference between pension fund assets and accrued benefits over the expected average remaining service life of the plan participants. The amortization period for the plans are currently fourteen to eighteen years.

10. **Contingent liabilities:**

(a) In connection with the purchase by Jannock Limited from a former shareholder ("former shareholder") of Lantic of its shares in Lantic, the former shareholder filed an action in April 1992 demanding payment from Jannock of the sum of $15,400,000 plus $2,240,000 in interest and expenses under a clause in the purchase and sale agreement and 90 percent of any payments received by Jannock under an indemnity from the Company in respect of this liability, which if repeated successively, could total $154,140,000. The Company and its counsel are of the view that the correct interpretation of the purchase and sale agreement is that no amount is owing to the former shareholder and consequently nothing will be owing to Jannock under the indemnification clause from the Company. The Company and its counsel are also of the view that the former shareholder's claim for 90 percent of any payment under the indemnity clause is entirely without merit.

(b) The Company is involved in various other legal matters arising in the normal course of business. After taking into consideration legal counsel's evaluation of such actions, management is of the opinion that their outcome will not have a material effect on the Company's consolidated financial statements.

11. **Financial instruments:**

Long-term debt:

Long-term debt is recorded on the balance sheet at a cost amount of $129,329,000 (1995 – $140,951,000). The Company has estimated fair value of its long-term debt to be $143,000,000 (1995 – $145,000,000). The fair value has been estimated using discounted cash flows analysis based on incremental borrowing rates currently available for loans of similar terms and maturities. The fair value estimate does not include costs that would be incurred to exchange or settle the long-term debt arrangements in force as at September 30, 1996 as the Company does not intend to extinguish the long-term debt arrangements prior to maturity.

Foreign exchange contracts:

The Company's activities which result in exposure to fluctuations in foreign currency exchange rates consist of the purchasing of raw sugar and the selling of refined sugar. The Company manages this exposure by creating offsetting positions through the use of financial instruments. These instruments include forward contracts, which are commitments to buy or sell at a future date, and may be settled in cash.

The credit risk associated with foreign exchange contracts arises from the possibility that a counterparty to a foreign exchange contract in which the Company has an unrealized gain fails to perform according to the terms of the contract. The credit risk is much less than the notional principal amount, being limited at any time to the change in foreign exchange rates attributable to the principal amount.

11. **Financial instruments (continued):**

Foreign exchange contracts (continued):

Forward foreign exchange contracts have maturities of less than two years and relate exclusively to U.S. currency. Counterparties to these contracts are major Canadian financial institutions. The Company does not anticipate any material adverse effect on its financial position resulting from its involvement in these types of contracts, nor does it anticipate non-performance by the counterparties.

The Company does not record the forward foreign exchange contracts on its balance sheet but does disclose the amount of outstanding forward foreign exchange contracts in the notes to the financial statements. The Company also discloses its unrealized position relating to these forward foreign exchange contracts based upon fair market value determined by quoted market rates.

As at September 30, 1996, the Company had outstanding forward foreign exchange contracts with maturities of less than two years to purchase U.S. currency aggregating U.S. $98,213,000 and to sell U.S. currency aggregating U.S. $85,107,000. Outstanding forward foreign exchange contracts were in an unrealized cash outflow position of approximately $379,000. The net position is sensitive to changes in foreign exchange rates.

12. **Net earnings per common share:**

Fully diluted earnings per share:

The possible issuance of common shares under the share option plan does not have a material effect on the current year's earnings per share.

13. **Segmented information:**

The Company operates in the sugar industry in Canada and the United States. Geographic information for the Company's sugar operations is summarized as follows:

	Canada		United States		Consolidated	
(In thousands of dollars)	1996	1995	1996	1995	1996	1995
Revenues	$ 488,044	$ 504,221	$ 360,510	$ 321,159	$ 848,554	$ 825,380
Operating earnings (loss)	$ 59,345	$ 51,837	$ 6,107	$ (9,886)	$ 65,452	$ 41,951
Interest expense					(15,552)	(17,014)
Goodwill amortization					(4,014)	(4,014)
Income taxes					(17,001)	(13,435)
Net earnings					$ 28,885	$ 7,488
Identifiable assets	$ 193,421	$ 175,148	$ 150,300	$ 129,570	$ 343,721	$ 304,718
Other investments	10,067	8,487	1,709	3,195	11,776	11,682
	$ 203,488	$ 183,635	$ 152,009	$ 132,765	355,497	316,400
Goodwill					140,935	144,948
Total assets					$ 496,432	$ 461,348
Depreciation and amortization	$ 10,726	$ 10,456	$ 5,738	$ 5,635	$ 16,464	$ 16,091
Additions to fixed assets	$ 7,071	$ 3,852	$ 3,117	$ 1,958	$ 10,188	$ 5,810

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