~~British Columbia Sugar Refining Co. Ltd.~~ C

BC Sugar Refinery, Ltd
Annual Report 1976

Directors

(All residents of Vancouver, British Columbia)

Forrest Rogers,
Chairman of the Board

Peter A. Cherniavsky,
President and Chief Executive Officer

Ian Angus,
Vice-President

H. Allan Dunlop,
Retired, formerly Vice-President and Secretary of the Company

William R. C. Patrick,
Retired, formerly Regional Managing Partner of Thorne Riddell & Co., Vancouver

John W. Pitts,
President of Okanagan Helicopters Ltd.

H. Richard Whittall,
Deputy Managing Partner, Richardson Securities of Canada

F. Cameron Wilkinson,
President of Wilkinson Company Limited

Contents

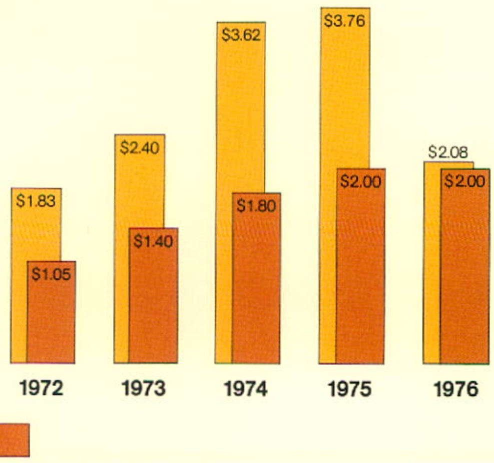
BC SUGAR was founded in 1890 and has carried on business continuously for 86 years. The Company operates two beet sugar plants in Alberta and one in Manitoba and a cane sugar refinery at Vancouver, British Columbia. The Company also has an interest in Belkin Packaging Ltd. which manufactures paperboard, folding cartons and corrugated containers for the Canadian market. In 1976, the Company formed a new subsidiary, Fairweather Gas Ltd., to engage in oil and gas exploration and development.

Five-Year Summary

(years ending September 30)

	1972	1973	1974	1975	**1976**
Per common share					
Earnings	\$1.83	\$2.40	\$3.62	\$3.76	**\$2.08**
Dividends*	1.05	1.40	1.80	2.00	**2.00**
Market Price—High	24	23½	24	23⅜	**23¾**
—Low	17	18½	17	17½	**19½**
Price/earnings ratio—High	13	10	7	6	**11**
—Low	9	8	5	5	**9**
Number of common shareholders	3,342	3,478	3,614	3,668	**3,549**
Degree of Canadian registration of common shares	89%	90%	89%	90%	**90%**

Earnings and Dividends per common share



*including extra paid in following year

To BC Sugar Shareholders

On behalf of the Board of Directors, I take pleasure in presenting to shareholders a review of the Company's operations for the fiscal year ending September 30, 1976.

Several important events occurred during the past year. These included a resumption of work at the Vancouver refinery after a strike lasting over nine months, the introduction of wage and profit controls by the Federal Government, a new diversification into oil and gas exploration and development, and completion of the expansion project at the Burnaby paperboard plant of Belkin Packaging Ltd.

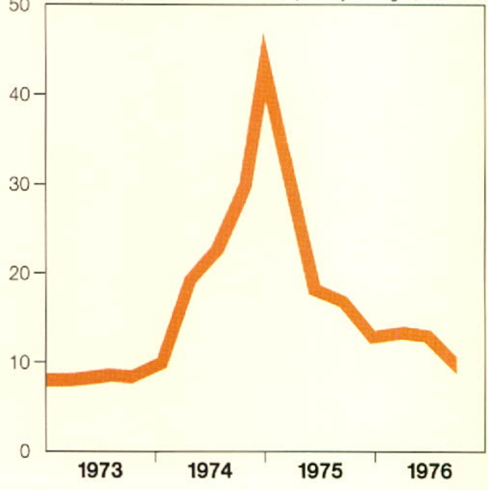
International Scene

The very high prices that existed in the sugar world last year disappeared in the year under review, and by September 30, 1976 values had plummeted to unrealistically low levels. It is difficult for those not in the sugar trade to comprehend why sugar prices are so volatile. It is worth noting that of the total world consumption of 80 million tons, nearly 60 million tons are consumed in the countries of origin. The remainder enters the world market or is traded under bilateral arrangements. Sugar, being an agricultural crop, is greatly affected by climatic conditions, hence production per acre can and does vary quite markedly. When some of the larger producing countries experience poor crops, prices on the world market inevitably rise. The corollary is equally true. Of course the relatively small portion of the world's production that trades freely exaggerates the surpluses or shortages because domestic markets will normally be satisfied before exports are considered. With generally good, or even record crops in major producing areas, the world sugar market stood at only £121 per long ton (about 8 cents per pound) on September 30, 1976. Only a few years ago this would have been considered to be a satisfactory price but various recent studies indicate that the most efficient world producers of raw sugar incur costs of production well in excess of 10 cents per pound. By September 21, 1976 the situation in the United States had become so serious that a trebling of duty to $1.87 per 100 pounds on all raw sugars entering the country was proclaimed by presidential decree. This action can only alleviate and not cure the problem of domestic producers and processors. It seems likely that the United States will have a new Sugar Act next year designed primarily to protect these producers. The form and substance that any such Act might take remains to be seen.

It is expected that meetings will be held in Geneva next spring in an attempt to negotiate a new International Sugar Agreement between importing and exporting nations. The economic provisions of the last agreement expired at the end of 1973. Preliminary meetings are scheduled for later this year so that various positions can be considered. Active participation by both the E.E.C. and the United States is essential for a new agreement to be

World Raw Sugar Spot Price

(U.S. cents per lb., F.O.B. Caribbean, quarterly averages)



successful. Your Company management recognizes that any price range agreed to must ensure reasonable returns to producers even when sugar is temporarily in surplus so that world production can be increased in an orderly fashion. This might avoid a return to the unwarranted price levels of 1974 and the ridiculously low prices of the 1950s and 1960s.

In negotiating a new agreement, the Company will urge the Canadian Government to recognize the importance of the beet sugar industry to the farm economy in Alberta and Manitoba. Such was not given fair recognition by the Canadian Government in prior agreements.

Canadian Scene

The Anti-Inflation Program initiated by the Federal Government on October 14, 1975 has received mixed reaction from Canadians, although all would agree that some drastic action was necessary to halt double-digit inflation.

The program's effect on your Company has not been as difficult as it might have been. With lower returns from beet sugar and the prolonged strike at the Vancouver refinery, profits have been below guidelines for the Company.

No Annual Report seems to be complete without reference to Canadian raw and refined sugar tariffs. The temporary refined import tariff rate of $1.20 per 100 pounds introduced in November 1974, when sugar prices were peaking, was extended for a further period in the May 25, 1976 Federal Budget. However, Canadian sugar tariffs are at the point where the difference between the rates on raw and refined sugar provide no protection for Canadian refiners. In fact, the British Preferential tariff on refined sugar is less than the tariff on raw sugar from non-British Preferential sources. The unilateral action by the United States in raising its duty level to $1.87 per 100 pounds should encourage the Canadian Government to reassess its position in order to maintain a healthy beet sugar and cane refining industry in Canada. Any importation of refined sugar would reduce industry activity which, in simple terms, would mean fewer jobs and services supplied by Canadians. It is particularly irksome that for 40 years under the United States Sugar Act, Canadian exports were denied entry into that country regardless of price. However, on the odd occasion when Canadian prices exceeded those in the United States, that country was able to sell in Canada where excess processing capacity already existed.

With the price of sugar now less than one-third of that reached in 1974, much of the adverse publicity and erroneous information aimed at sugar has disappeared. It is expected that the apparent drop in consumption will be reversed and the historical plateau of 100 pounds (45 kilos) per capita will again be reached.

Metrication of all the Company's products began early in the year, beginning with beet sugar packages. The changeover has proceeded well and through consumer education, complaints were minimal from the public. The last packages to change will be Rogers' Golden Syrup in 1977. The cost of metrication and bilingual labelling has already cost the Company $290,000. This is not insignificant, though at least it is non-recurring.

Beet Sugar

The viability of the beet sugar industry is dependent, amongst other things, on two very important items. The first is grower interest in the crop. In order to achieve a reasonable return, the farmer must have sufficient acreage to justify the large investment necessary in specialized machinery required for planting, thinning and harvesting. The processor must also realize economies of scale and receive sufficient tonnage of beets to warrant the operation of a complex and capital-intensive factory.

Both farmer and processor are directly affected by the price of sugar in the market-place, as both share in the net return from the sale of sugar. Recent world prices are approaching a level where the returns from beet sugar will be unsatisfactory if there are further significant cost increases to the farmer or to the processor. The recent action by the United States Government suggests that some initiative should follow in Canada.

Capital expenditures during the year were directed toward beet handling facilities, automatic filtration stations at all factories and an increase in bulk sugar storage capacity in Manitoba, which permitted substantial and immediate savings in storage and handling costs. At all three factories there were numerous small capital expenditures, all of which contributed to improved plant efficiency.

The very wet spring in 1975 seriously affected Alberta's beet acreage. Coupled with poor growing weather, sugar production was well below the long-term average. Manitoba, on the other hand, produced ample quantities to satisfy the prairie market.

Cattle Feeding

In addition to sugar, the Company supplies Western Beet Pulp and Western Feed Molasses to more than 300 feed mills in western Canada. Pulp improves the digestibility of the ration and due to the sugar content of molasses, the palatability and consumption of feeds are increased. The Company's total production of these by-products is consumed in the four western provinces mainly by beef and dairy producers.

Fertilizer Distribution

The Company acts as a retailer of fertilizer and operates five bulk distribution centres in southern Alberta. Supplies of fertilizer were more readily available last year, enabling the Company to realize some increase in earnings from this operation.

Custom fertilizer spreading is also carried out by Company personnel. Last year the Company fertilized about 40,000 acres on a custom basis and also made available on a rental basis 48 pull-type spin spreaders.

Beet pulp is used chiefly for cattle feed.

Cane Sugar

For nearly six months of the fiscal year, the refinery in Vancouver was idled by strike action by the Retail, Wholesale & Department Store Union. The strike which began in June 1975 was complicated by the Federal Anti-Inflation Program initiated on October 14, 1975. No regulations were proclaimed until late December, and the complexity of the controls undoubtedly contributed to the delay in reaching an agreement with the Union. After numerous meetings between Company and Union, a proposed settlement was reached and submitted to the Anti-Inflation Board. The Board ordered a rollback to 14 per cent in the first year and 8 per cent in the second. The Company and Union considered an appeal but this choice was abandoned and the employees returned to work after a 10-month loss of wages.

The strike was costly to the Company and employees alike. Much could be written as to why the strike occurred in the first place. It is the Company's view that the Union and its executive did not fairly present the Company's very generous offers to the employees. Furthermore, after the Anti-Inflation Program became effective on October 14, there was no logic nor reason for the strike to have continued another 5 months. In fact, it may be said the strike then was against the Anti-Inflation Program but it was the Company and its employees who bore the brunt of economic losses. It is gratifying that with a return to work, harmony has been re-established between the Company and employees.

Throughout the strike the British Columbia market was generally served by United States beet and cane sugar manufacturers. The Pacific Northwest, Hawaiian and California production is greatly in excess of requirements in those areas. The surplus finds its way across the midwest to Chicago. Thus, the relatively small British Columbia market was easily satisfied by domestic United States production. Indeed the American suppliers were anxious to remain an influence in our market after the strike, which they are still doing to a limited degree.

New metric packages at Vancouver refinery.


FINE GRANULATED
SUGAR
1 kg
B.C. SUGAR REFINERY

Fairweather Gas Ltd.

In 1976 BC Sugar made an investment in the Canadian oil and gas industry. The Company joined with Anderson Exploration Ltd. of Calgary to form Fairweather Gas Ltd., which is 60% owned by BC Sugar and 40% owned by Anderson Exploration Ltd.

BC Sugar made an initial investment of $5 million in Fairweather Gas Ltd. This amount was used by Fairweather to purchase an interest in all of the oil and gas properties of Anderson Exploration Ltd. A further $10 million will be contributed by BC Sugar over the next 4 years, and this additional amount will be used to carry out an oil and gas exploration and development program in Canada under a joint venture agreement with Anderson Exploration Ltd. Mr. J. C. Anderson, the founder and Chief Executive Officer of Anderson Exploration Ltd., will direct and manage the joint venture.

Exploration and Development

During the four-year period covered by BC Sugar's additional $10 million contribution, Fairweather's major function will be to explore for and develop oil and gas reserves. In addition to the BC Sugar funds, Fairweather will be using substantially all of its own cash flow from existing properties for the same purpose. As part of the joint venture with Anderson Exploration Ltd., a very aggressive drilling program is anticipated.

In the first fiscal quarter of its existence Fairweather participated in the drilling of 28 wells, all in the Province of Alberta, of which 19 wells were completed as potential gas producers and 9 wells were abandoned as dry holes. At fiscal year-end, Fairweather was participating in 6 actively drilling wells.

Ten of the above gas wells were completed in the Princess area of southeastern Alberta where a 23-well development program is in progress. These wells are developing shallow, low pressure gas reserves in the Milk River, Medicine Hat, and Second White Specks sands. This project will begin contributing to Fairweather's cash flow in the first half of fiscal 1977.

Production

As part of the initial purchase from Anderson Exploration Ltd., Fairweather acquired an interest in the Dunvegan gas field. This is the main producing property contributing to the cash flow of Fairweather. The Dunvegan field is situated in the Peace River Arch area of northwestern Alberta approximately 55 miles north of Grande Prairie. The field has 65 producing wells in an area of approximately 40 square miles. The wells produce through field satellite facilities from which the gas and liquids are transported to a central gas processing plant for final processing prior to sale. The Dunvegan field is unitized and Fairweather owns a 3.8% working interest.

As of January 1, 1976 the Energy Resources Conservation Board of Alberta estimated the remaining recoverable reserves of Dunvegan to be 979 billion cubic feet of natural gas on the basis of 1000 BTU's per cubic foot. Working interest natural gas deliveries under long-term gas sales contracts from Dunvegan to the main trunk pipeline averaged 142.5 million cubic feet per day from the total field (1000 BTU basis) in the first nine months of 1976. In the same period, the gas processing plant produced a daily average of 1302 barrels of natural gas liquids.

Other producing fields contributing to the cash flow of Fairweather are the Belloy, Hines Creek and Woking fields in the Peace River Arch area of Alberta and other smaller properties in other areas of Alberta. Fairweather also owns working interests in a number of shut-in gas properties which will contribute to income in the future.

Drill stem test at Dunvegan gas well.

Financial

Earnings and Dividends

Earnings declined to $2.08 per common share in 1976 from $3.76 in 1975. Earnings in 1976 were adversely affected by the strike at the Vancouver refinery. Although the refinery resumed operations in late March, 1976, it did not return to a profitable position until the last quarter of the 1976 fiscal year. Earnings from beet sugar declined, but earnings from dried beet pulp and feed molasses increased. Belkin Packaging Ltd. contributed 48 cents per share to consolidated earnings in 1976, up from 29 cents in 1975. Fairweather Gas Ltd. made a small contribution to earnings of 3 cents per share in 1976, reflecting 3 months' earnings from commencement of operations on June 30, 1976.

A year-end extra dividend of 60 cents per common share was declared by the Board of Directors payable January 31, 1977. Total dividends payable out of 1976 earnings amount to $2.00 per common share, the same amount as last year. While this $2.00 rate represents 95% of 1976 earnings, over the last 5 years the dividend pay-out has averaged 60%.

Major Developments

The doubling of the capacity of the Burnaby paperboard plant of Belkin Packaging Ltd. was completed during the year at a total cost of $27 million, $20 million of which was incurred in the current year. Long-term financing was provided by a $27 million term bank loan made to Belkin Packaging Ltd., $22 million of which was used for the expansion project and $5 million of which was used to repay the 9½% secured debenture held by BC Sugar.

The other major development during the year was the formation of Fairweather Gas Ltd., discussed on page 8 of this Report. The initial $5 million investment in Fairweather was provided by funds received on repayment of the Belkin debenture, and the remaining commitments of approximately $2.5 million in each of the next 4 years will be met out of cash flow from operations.

Effect of Inflation

The financial statements of the Company follow normal accounting practices and disclose fixed assets at historic cost. While the use of historic costs has the advantage of simplicity, it has the serious deficiency of not disclosing the current value of a company's assets. This discrepancy between current values and financial statement values is most evident in the case of fixed assets, such as land and buildings, which were acquired many years ago.

For example, the Company's beet sugar facilities in Alberta were built in what might be termed pre-inflationary times. The Picture Butte factory was built in 1936 at a cost of $1.5 million and the Taber factory was built in 1950 at a cost of $6 million. While both factories have since been doubled in size, it is estimated that it would now cost $50 million to replace the Picture Butte factory and $70 million to replace the Taber factory. The Balance Sheet does not reflect these current values.

The discrepancy between current values and financial statement values also distorts the relationship between Long-Term Debt and Shareholders' Equity on the Balance Sheet. The sugar facilities which generally reflect pre-inflationary dollars were financed out of equity, whereas the packaging facilities and natural gas interests which generally reflect current dollars (because the assets are relatively new) were financed out of long-term debt. The debt to equity ratio of the Company is therefore not meaningful because Long-Term Debt reflects current dollars and Shareholders' Equity reflects "old" dollars.

Appreciation

Your Directors would like to express their appreciation to those employees who responded to the challenges of the past year.

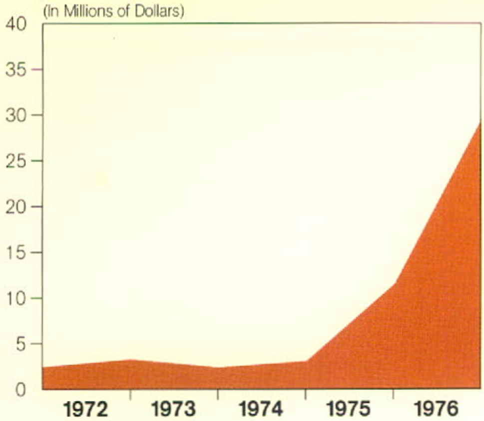
On behalf of the Board

Peter A. Cherniavsky

President
BC Sugar Refinery, Limited.

November 16, 1976 Vancouver, B.C.

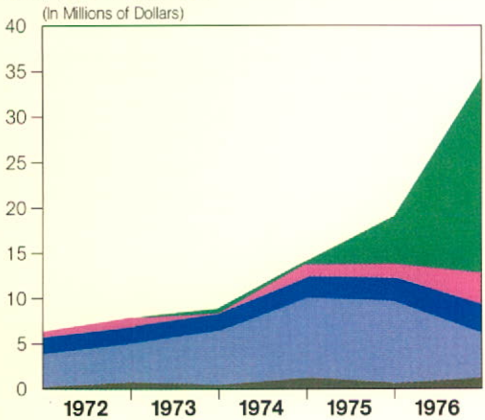
Capital Expenditures



Capital expenditures in 1976 were as follows:

Packaging operations	
Completion of plant expansion at the Burnaby Paperboard Division of Belkin Packaging Ltd.	$20,324,000
Oil and gas operations	
Costs relating to acquisition, development and exploration of oil and gas properties	5,682,000
Sugar operations	
Expansion and modernization of plants to improve efficiency and reduce costs	3,702,000
	$29,708,000

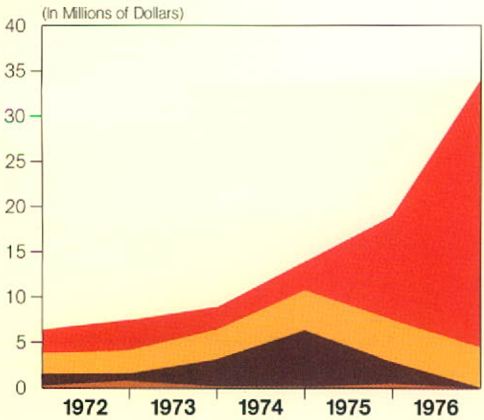
Source of Funds



Funds came from:

- Outside financing
- Deferred taxes
- Depreciation
- Earnings
- Other

Use of Funds



Funds were used for:

- Capital expenditures
- Dividends
- Added to working capital
- Other

Belkin Packaging Ltd.

Belkin Packaging Ltd. had a successful year in 1976 with total revenues and earnings showing a substantial improvement over 1975. After-tax earnings increased by 65%. However, it must be remembered that the 1975 results were significantly reduced due to labour strikes in all of the Company's manufacturing divisions that extended to October 10, 1975.

During the year, the Company's Board of Directors approved the expansion of the Corrugated Container Division into Edmonton, Alberta and of the Folding Carton Division into Ontario. At September 30, 1976, construction of the Edmonton plant was well under way with start-up expected by the end of the calendar year. It is anticipated that these additional manufacturing facilities will provide a market for a significant portion of the increased capacity of the Paperboard Division.

In British Columbia, the construction phase of the expansion project of the Paperboard Division was completed in June and commissioning of the mill started in July. By September 30, the new paper machine had not yet achieved its expected production levels on all grades.

The Company was able to utilize the Federal income tax incentives available to Canadian manufacturers and processors. The provision for income taxes was reduced as a result of the Investment Tax Credit and the Manufacturing and Processing Tax Reduction. Also, accelerated capital cost allowances permitted the deferral of taxes applicable to 1976 which contributed to a cash flow of $4,465,000 available for repayments of long-term debt.

The after-tax earnings of the Company amounted to $2,312,000. An ever-increasing inability to recover rising costs (particularly in waste paper), a general weakening in the demand for boxboard, domestic and export linerboard, and packaging products, coupled with the anti-inflation controls, indicates that 1977 will be a difficult year. However, every effort will be made in cost reductions and productivity improvements in order to achieve the expected profitability of the Company.

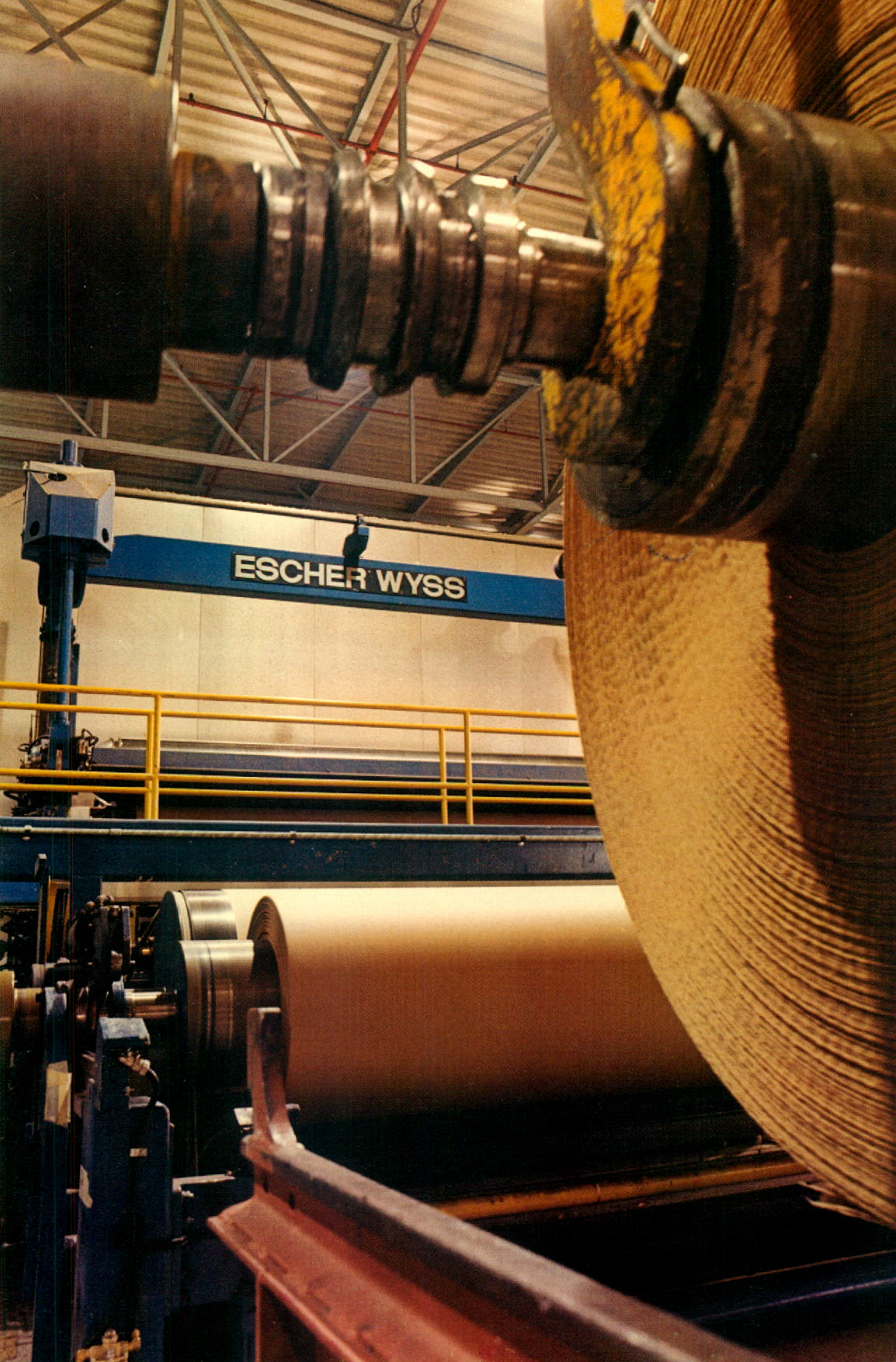
On behalf of the Board

Morris Belkin

Chairman
Belkin Packaging Ltd.

November 16, 1976
Vancouver, B.C.

New paper machine at Burnaby Paperboard Division produces a variety of paper grades.


ESCHER WYSS

Statement of Earnings

BC Sugar Refinery, Limited
and Consolidated Subsidiaries
Years ended September 30

(In Thousands of Dollars)	1976	1975
Revenues (Note 8)		
Sales	**$124,313**	$162,398
Other	**692**	128
Total Revenues	**125,005**	162,526
Costs and expenses		
Cost of sales	**95,571**	128,648
Selling, general and administrative	**13,190**	12,674
Depreciation, depletion and amortization	**3,102**	2,712
Long-term debt interest	**1,012**	922
Bank and other interest	**1,133**	689
Total Costs and Expenses	**114,008**	145,645
	10,997	16,881
Income taxes	**4,595**	7,004
	6,402	9,877
Minority interest in earnings of subsidiary companies	**1,262**	698
Net earnings	**$ 5,140**	$ 9,179
Net earnings per common share	**$2.08**	$3.76

Statement of Reinvested Earnings

(In Thousands of Dollars)	1976	1975
Balance, beginning of year	**$ 25,838**	$ 21,625
Net earnings	**5,140**	9,179
	30,978	30,804
Dividends (Note 5)	**4,955**	4,966
Balance, end of year	**$ 26,023**	$ 25,838

Statement of Changes in Financial Position

BC Sugar Refinery, Limited
and Consolidated Subsidiaries
Years ended September 30

(In Thousands of Dollars)	**1976**	1975
Working Capital Provided		
Net earnings	**$ 5,140**	$ 9,179
Add: Depreciation, depletion and amortization	**3,102**	2,712
Income taxes provided not currently payable	**3,270**	1,378
Minority interest in earnings of subsidiary companies	**1,262**	698
Total from operations	**12,774**	13,967
Increase in long-term debt, net	**21,652**	5,480
Total	**34,426**	19,447
Working Capital Applied		
Investment in fixed assets	**29,708**	11,565
Payment of dividends		
Shareholders of the company	**4,955**	4,966
Minority shareholders of subsidiary companies	**390**	585
Par value of preferred shares purchased in the open market	**280**	140
Increase in deferred charges	**1,217**	86
Total	**36,550**	17,342
Increase (decrease) in Working Capital	**(2,124)**	2,105
Working Capital at beginning of year	**24,045**	21,940
Working Capital at end of year	**$ 21,921**	$ 24,045

Auditors' Report

To the Shareholders

We have examined the balance sheet of BC Sugar Refinery, Limited and consolidated subsidiaries as at September 30, 1976 and the related statements of earnings, reinvested earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at September 30, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
November 23, 1976.

THORNE RIDDELL & CO.
Chartered Accountants.

Balance Sheet

BC Sugar Refinery, Limited
and Consolidated Subsidiaries
September 30

(In Thousands of Dollars)	**1976**	1975
ASSETS		
Current Assets		
Cash and short-term deposits	**$ 3,950**	$ 1,900
Accounts receivable	**15,174**	9,093
Income taxes recoverable	**2,106**	3,113
Inventories (Note 2)	**20,215**	24,544
Prepaid expenses	**1,110**	657
Total current assets	**42,555**	39,307
Fixed Assets, at cost (Note 3)		
Property, buildings and equipment	**106,345**	74,976
Less accumulated depreciation and depletion	**43,379**	40,975
Total fixed assets	**62,966**	34,001
Deferred Charges, at cost less amortization		
Bond discount and financing expenses	**219**	239
Deferred lease payments	**532**	448
Deferred preproduction costs	**956**	—
Total deferred charges	**1,707**	687
Total	**$107,228**	$ 73,995

	1976	1975
LIABILITIES		
Current Liabilities		
Bank loans, secured	**$ 2,019**	$ 1,497
Accounts payable and accrued liabilities	**14,648**	11,948
Dividends payable	**851**	858
Current portion of long-term debt	**3,116**	959
Total current liabilities	**20,634**	15,262
Long-Term Debt (Note 4)	**37,572**	15,920
Income Taxes Provided not Currently Payable	**9,136**	5,866
Minority Interest in Subsidiaries	**6,963**	3,929
Total	**74,305**	40,977
SHAREHOLDERS' EQUITY		
Share Capital		
Authorized: 6,000,000 Common shares of no par value		
168,333 5% cumulative Preferred shares redeemable at par value of $20		
Issued: 2,400,000 Common shares (Note 5)	**4,000**	4,000
145,000 Preferred shares (159,000 in 1975)	**2,900**	3,180
	6,900	7,180
Earnings Reinvested in the Business	**26,023**	25,838
Total shareholders' equity	**32,923**	33,018
Total	**$107,228**	$ 73,995

Commitments (Note 9)

Approved on behalf of the Board
F. Rogers, *Director.*
P. A. Cherniavsky, *Director.*

Notes to Financial Statements

BC Sugar Refinery, Limited and Consolidated Subsidiaries
September 30, 1976

1. Significant Accounting Policies

a) Basis of presentation

The financial statements include the accounts of the wholly-owned subsidiary company, The British Columbia Sugar Refining Company, Limited and the partly-owned subsidiary companies, Belkin Packaging Ltd. and Fairweather Gas Ltd. The Statement of Earnings includes the earnings of Fairweather Gas Ltd. from the date of commencement of operations on June 30, 1976.

b) Inventories

Inventories of beet sugar, paper, packaging products and supplies are valued at the lower of average cost and replacement. A normal quantity of cane sugar is carried at a fixed value. Quantities of cane sugar in excess of this amount, which are valued at the lower of average cost and replacement, are hedged on the commodity market and are not at market risk. During 1976, the quantity carried at a fixed value was increased at current prices from 30,000 metric tonnes at $65 per tonne to 35,000 tonnes at $85 per tonne, which is less than replacement value.

The company's basis of valuing cane sugar is not allowable for income tax purposes, and accumulated income taxes of $1,923,000 ($3,661,000 in 1975) applicable to the difference between the company's basis of valuation and that required for income tax purposes are added to inventory values.

c) Fixed Assets

Fixed assets are valued at cost which, for major expansions of the packaging operations after 1973, includes interest on funds borrowed during construction.

d) Depreciation

Assets used in the sugar operations are depreciated on the diminishing balance basis using rates approximately equal to maximum allowances at normal rates under the Income Tax Act. Depreciation was not charged on the Vancouver refinery during the five month period in 1976 in which operations were suspended by a strike. Assets used in the packaging operations are depreciated on a straight-line basis which reflects estimates of their expected useful lives.

e) Depletion

The company follows the full cost method of accounting whereby all costs relative to the exploration and development of oil and gas properties, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves.

f) Deferred preproduction costs

Commencing in 1976, the company adopted the policy of deferring costs associated with major plant expansions incurred prior to commencement of commercial production and amortizing these costs over a period of years, rather than charging them directly to earnings as in the past. There were no preproduction costs in 1975.

g) Income taxes

The company follows the tax allocation method of accounting whereby the income tax provision is based on earnings reported in the accounts. Accordingly, the company makes full provision for income taxes not currently payable as a result of claiming capital cost allowances and exploration and development costs in excess of the amounts provided for depreciation and depletion in the accounts. Income taxes provided in the Statement of Earnings include $3,270,000 ($1,378,000 in 1975) not currently payable.

2. Inventories

	1976	1975
Sugar	$10,420,000	$17,300,000
Paper and packaging products	6,529,000	4,593,000
	16,949,000	21,893,000
Supplies	3,266,000	2,651,000
	$20,215,000	$24,544,000

3. Fixed assets

	Gross investment at cost	Accumulated depreciation and depletion	Net Investment 1976	Net Investment 1975
Land	$ 929,000	$ —	$ 929,000	$ 932,000
Oil and gas properties	7,557,000	96,000	7,461,000	—
Buildings and equipment	97,859,000	43,283,000	54,576,000	33,069,000
	$106,345,000	$43,379,000	$62,966,000	$34,001,000

4. Long-term debt

	1976	1975
The British Columbia Sugar Refining Company, Limited:		
9½% First Mortgage Sinking Fund Bonds	$ 6,626,000	$ 7,501,000
Belkin Packaging Ltd.:		
Term bank loans (secured by debentures, promissory notes and chattel mortgages) repayable to 1986 with interest at rates averaging currently 10.7%, varying with prime lending rate	28,078,000	1,495,000
Equipment contracts, secured by promissory notes, repayable to 1981 with interest at 8.2%	2,503,000	—
Interim bank loan pending long-term financing (secured)	2,379,000	6,243,000
Equipment purchase obligations to be financed by term borrowings	1,102,000	1,640,000
	$40,688,000	$16,879,000
Less current portion	3,116,000	959,000
Total long-term debt	$37,572,000	$15,920,000

Principal instalments on long-term debt due in each of the next five years are approximately:

1977	$ 3,116,000
1978	4,728,000
1979	4,681,000
1980	4,619,000
1981	4,431,000

5. Share capital

The issued common shares at September 30, 1976 comprise:

Class A	1,918,101
Class B	481,899
Total issued common shares	2,400,000

Class A and Class B shares are voting, convertible into one another on a share for share basis and rank equally with respect to dividends and in all other respects. The only distinction between the two classes is that the directors may specify that cash dividends on Class B shares be paid out of tax-paid undistributed surplus on hand, with the result that Class B dividends so paid will be less than the Class A dividends by the amount of the 15% tax paid thereon by the company.

During the year the following dividends were declared:

Common shares	
Class A— $2.00 per share	$3,893,000
Class B— $2.00 per share including 15% tax thereon	907,000
	4,800,000
Preferred shares— $1.00 per share	155,000
Total dividends	$4,955,000

6. Pensions

The company has a number of pension plans based on length of service and earnings, participation in which is available to substantially all employees. With respect to pension plans covering employees in the sugar operations, at September 30, 1976 pension plan assets were estimated to be adequate to fund pension benefits. With respect to pension plans covering employees in the packaging operations, actuarial estimates in 1975 of the unfunded liability for past services amounted to $870,000, which amount is being funded by additional annual contributions to 1987.

7. Anti-inflation legislation

The company is subject to the Anti-Inflation Act which provides for the restraint of profit margins, prices, employee compensation and dividends. These restraints should not result in any material changes to the company's reported earnings for the year ended September 30, 1976.

8. Supplementary information

a) Sales revenues	1976	1975
Sugar	$ 87,413,000	$131,536,000
Paper and packaging products	36,597,000	30,862,000
Oil and gas	303,000	—
	$124,313,000	$162,398,000

b) Other revenues	1976	1975
Gain on purchase of bonds and preferred shares	$ 159,000	$ 56,000
Capital gain on foreign exchange	512,000	—
Investment income	21,000	72,000
	$ 692,000	$ 128,000

Minor reclassifications of the above items for 1975 have been made to achieve comparability with the presentation adopted for 1976.

c) Remuneration of directors and officers

The aggregate remuneration paid by the company to the eight directors of the company as directors was $13,000 and to its six officers, three of whom are also directors, was $433,000.

9. Commitments

The company is committed to make annual payments of approximately $2.5 million in each of the next four years for oil and gas exploration and development.

Belkin Packaging Ltd. has arranged financing for an expansion program calling for expenditures of approximately $7.5 million.

Annual payments under leases in effect at September 30, 1976 are approximately $500,000. The terms of the leases vary from five to thirty years.

B C SUGAR REFINERY, LIMITED

P.O. BOX 2150 VANCOUVER 3, CANADA   CABLE ADDRESS 'SUGAR' VANCOUVER

TELEPHONE 253-1131 · AREA CODE 604
TELEX 04-508715

December 31, 1976

To Our Shareholders

Belkin Packaging Ltd., jointly owned by your company and Keycorp Industries Limited, announced today that it has entered into an agreement providing for the purchase of all the common shares of Somerville Industries Limited from George Weston Limited effective December 31, 1976.

[illegible]

[illegible]

December 11, 1978

Dear Superintendent:

[illegible]

Somerville manufactures and distributes paperboard and plastic packaging products, automotive trim components and games. Somerville's operations are carried on in eight manufacturing plants located in London, Ont., Montreal, Toronto, Windsor, and Winnipeg. Manufacturing operations will also commence in 1977 at new facilities in Brockville, Ontario.

Belkin Packaging produces paperboard and manufactures corrugated containers, folding cartons, and "Pure-Pak" milk containers at plants located in British Columbia and Alberta.

[illegible] These products and [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] Brockville, Ontario.

[illegible] pipeboard and [illegible] corrugated containers, [illegible] [illegible] plants located in British Columbia and Alberta.

Officers

(other than those who are also Directors)

William R. Hetherington
Vice-President

William C. Brown
Second Vice-President

John G. Cochrane
Secretary and Chief Financial Officer

Stanley E. George
General Manager, Operations

J. Mac. Roxburgh
Technical Services Manager

David M. S. Elliott
Treasurer

William A. Willison
General Manager, Canadian Sugar Factories, Lethbridge, Alberta

John W. Hall
General Manager, Manitoba Sugar, Winnipeg, Manitoba

Head Office:

Foot of Rogers Street, Vancouver, B.C.

Plants:

Beet sugar factories:

LOCATION	ERECTED	DAILY CAPACITY (TONNES OF BEETS)
Picture Butte, Alberta	1936	2,300
Taber, Alberta	1950	4,000
Fort Garry, Manitoba	1940	2,800

Cane sugar refinery:

Located at Vancouver, daily capacity 680 tonnes of refined sugar.

Belkin Packaging Ltd.	ANNUAL CAPACITY
Folding carton division, Richmond, B.C.	33,000 short tons
Corrugated container division, Richmond, B.C.	600,000,000 sq. ft.
Paperboard division, Burnaby, B.C.	170,000 short tons

Shares Traded:

Toronto Stock Exchange
Vancouver Stock Exchange

Transfer Agent:

National Trust Company, Limited, Vancouver and Toronto