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

# B.C. Sugar

Refinery, Ltd.

B. C. SUGAR
Rogers
TRADE MARK REGISTERED
REFINERY

CANADIAN
SUGAR
FACTORIES

BELKIN

PURE
GRANULATED
SUGAR
PRODUCT OF
MANITOBA

# Annual Report 1973

# B C SUGAR REFINERY,

## LIMITED

**VANCOUVER, B.C. SEPTEMBER 30, 1973**

### DIRECTORS

| | |
|---|---|
| F. ROGERS* Chairman of the Board | Vancouver, B.C. |
| P. A. CHERNIAVSKY* President | Vancouver, B.C. |
| I. ANGUS* | Vancouver, B.C. |
| H. A. DUNLOP* | Vancouver, B.C. |
| W. R. C. PATRICK, F.C.A. | Vancouver, B.C. |
| J. W PITTS | Vancouver, B.C. |
| H. R. WHITTALL | Vancouver, B.C. |
| F. C. WILKINSON | Vancouver, B.C. |

*Officers of the Company.

Head Office: Ft. Rogers St.,
Vancouver 6, B.C.

Registrar and Transfer Agent:
National Trust Company, Limited,
Vancouver and Toronto

# PRESIDENT'S REPORT

On behalf of the Board of Directors I take pleasure in providing to shareholders a review of the 83rd year of the Company's activities:

World-wide events have continued again this year to have an impact on sugar that has no parallel in the history of the industry. Shortages, higher prices, and the collapse of the International Sugar Agreement have all had their effect. On the Canadan scene the changes made in February in the sugar tariff and the possibility of further changes early in 1974 have also contributed to the problems with which your management has had to contend during the past year.

Shareholders may remember that in January 1969 Canada became signatory to an International Sugar Agreement which was to have a life of five years. For the first three years prices stayed near the bottom to midpoint of the desired price range. A marked change occurred in late 1971 when the failure of the Russian beet crop forced that country to purchase large quantities of sugar on the world market. Crops in other major producing areas have not been excessive so that the large surpluses existing in the late 1960's disappeared. In spite of the expected safeguards of the International Sugar Agreement, prices moved up rapidly and have virtually remained so to this day.

Negotiations for a new Agreement between the 33 exporting and 20 importing countries began in Geneva in May of this year, continuing again in September. It was hoped that a new Agreement could be reached as there is no doubt that international commodity agreements tend to stabilize prices at levels which are fair both to exporter and importer. However, the difficulty of negotiating under the market conditions existing in October led to a stalemate. As a result, the Agreement will lapse at the end of 1973. It should be noted that for the last two years Canada has been able to purchase raw cane sugar at a cost considerably below the existing world market price. This lower price was referred to in previous annual reports and was part of the Supply Commitment provisions of the International Sugar Agreement. The immediate future therefore would indicate that sugar prices will increase, but one only has to look at the price history of our commodity in the world market to expect that these levels will not be sustained.

As a matter of record, the world price for raw sugar, cost and freight London, England, in January 1967 hit a postwar low of £12.25 per long ton. Prices increased gradually to £50 per long ton by the beginning of December 1971. Except for a short period in 1972 prices have exceeded the maximum envisaged by the International Sugar Agreement. The London Daily Price on September 30, 1973 was £100 and has since reached a peak of £146.

Ocean freight is a much more significant factor in costs today. Six years ago the rate was £4 per long ton Caribbean/Britain whereas today it has risen to £18. Thus today the ocean freight factor alone is greater than the London cost and freight price six years ago.

With the end of the Agreement on December 31, 1973, the cost of raw sugar to Canadian refiners will revert to a price based on the London Daily Price which currently is £55 to £60 higher than the ceiling set by the International Sugar Agreement. Just when prices will fall is of course open to conjecture. On the other hand, the cost of production in all countries has increased markedly so that a return to the abysmal levels of five years ago is unlikely and undesirable. In the short term the world supply situation will be very tight. However, we are quite confident that our traditional suppliers will have sugar available for our market. It is in times such as at present that the reliability of the source is of paramount importance. The preferential tariff extended to certain countries has undoubtedly contributed to the goodwill existing between Canada and the Commonwealth raw sugar producers and in our view should be maintained as at present. In passing it should be noted that whereas Canada grants certain preferences, for example on sugar entering this country, we likewise enjoy preferences on our goods (some of a manufactured nature) entering other Commonwealth countries.

Four years ago the Tariff Board was directed to look at all rates relative to raw and refined sugars entering Canada. In January 1970 hearings were held in Ottawa resulting in a report issued in November 1971 by the Board. In our view this report was inaccurate in many of its facts which, unwittingly perhaps, led the Board to erroneous conclusions. Furthermore, the world sugar situation has changed so dramatically since the hearings were held that much of the information contained in the Board's Report is now out of date. Rebuttals were presented to the Department of Finance and other governmental departments concerned.

As a temporary measure the Federal Budget in February 1973 reduced tariffs on many foodstuffs including sugar. It is expected that a new tariff structure for sugar will be forthcoming early in 1974 which will more nearly reflect the situation existing today and one which will promote a solidly based Canadian refining industry, as well as a healthy beet sugar industry in the Prairie provinces where diversified agricultural enterprises are so essential.

* * * *

Consolidated net earnings for the year amounted to $2.40 per common share compared with $1.83 last year. Of these earnings $2.19 is attributable to sugar operations compared with $1.57

last year. The increase is in large measure due to better returns for beet sugar and its by-products in which both growers and Company participate.

The contract with the Alberta and Manitoba beet growers is a sharing arrangement under which the growers receive 63% of the proceeds from the sale of sugar plus a share of by-product revenues. It should be noted that the Company is responsible for sales not only for our interest but also for the growers. Early in the year the Company contracts with growers on an acreage basis, for all beets, that will be harvested in the fall. In early November the Company pays to growers 75% of the estimated amount they will receive for their share of the crop. As sales proceed subsequent payments are made until the whole crop is sold, usually by October of the following year. Thus, the period from contracting to final payment is about 18 months.

Due to the nature of the beet sugar operations, inventories reach their lowest level for the year in the month of September.

Shareholders will be interested to know that during the past year bank loans required to finance inventories reached a peak of approximately $9 million in February. The same situation is likely to prevail in the coming year as by the time this report is mailed, over $12 million will have been disbursed to growers to cover the initial payment for 1973 beets. This is the reason for the substantial amount shown on the balance sheet as short-term deposits.

* * * *

The 1972 beet crop in Manitoba was one of the best and daily sugar production was the highest on record. The Alberta harvest was however fraught with difficulties due to inclement weather in September and October. An early frost damaged the unharvested beets and warm weather later on caused deterioration of the beets while in storage. Company personnel must be given credit for the skillful manner in which the crop was handled thereby averting an otherwise dangerous situation which could have resulted in a substantial loss of sugar.

Prospects for the 1973 crop are fair but in both provinces sugar content is below average and production will be just sufficient to meet market requirements.

Extensive modifications to the "sugar end" were made at the Picture Butte Factory by the addition of new machinery, including automatic centrifugals and related equipment.

At Taber and Manitoba facilities were installed to provide liquid sugar to service industrial customers. These installations will reduce handling costs for the customer as well as shipping costs at the factory.

The production and sale of Western Beet Pulp and Western Feed Molasses to the cattle feeders of the Prairie provinces is an important factor in the beet sugar operations. This year the demand for these products has far exceeded the available supplies.

As well as the close association with the cattle feed-mills, the Company operates a large commercial feedlot at Picture Butte, Alberta. In this feedlot the Company is able to test various rations and methods not only for the financial benefit of the Company, but also to keep abreast of markets and bring the very latest feeding techniques to customers.

The fertilizer division of Canadian Sugar Factories Limited has experienced another satisfactory and busy year. Fertilizer is distributed to farmers in the beet growing territory from strategically located bulk storage plants. Trained sales personnel advise farmers in the use and application of fertilizers for their various crops.

The Vancouver Refinery continues to operate in an efficient manner. The capacity of the plant is more than adequate to serve the growing needs of British Columbia for some years to come. It is gratifying to note that sales of liquid and bulk sugars to manufacturers are increasing, reflecting additional industrial activities by local concerns.

A high level of efficiency dictates the need for capital expenditures. Although there were no major expenditures this year, there have been numerous additions that collectively are important to operations. Funds are also being spent to rearrange the discharge of our waste effluents to the City of Vancouver's new facilities. It may be noted that wastes from a cane sugar refinery do not constitute a serious problem.

Two-year contracts were negotiated with unions in Vancouver and the Prairies. The cost of these settlements per 100 pounds of sugar is inevitably very high. In addition, increases in cost of nearly all materials, plus additional fringe benefits have also added to the cost of production.

In spite of the reported high unemployment figures in Canada, the beet sugar factories for the last two years have had great difficulty in securing sufficient help to operate the plants. This results in considerable overtime work for those employed in order to keep the plants running efficiently. In our view the extensive welfare programs initiated by the Federal Government encourage many people to prefer unemployment benefits to working for a living at good wages. Such welfare programs add unnecessarily to an already heavy tax load borne by all other Canadians.

* * * *

With reference to Belkin Packaging Ltd. the new corrugated plant in Vancouver was completed early in the year. The increased capacity of these facilities will permit the Company to share in the expected market growth of corrugated containers in British Columbia.

In the folding carton plant, the installation of machinery to produce milk cartons was also completed. This enables the Company to sell an expanded line of cartons to the dairy industry.

The Burnaby Paperboard plant has now had two full years of operation with the Ultra Former equipment. As well as improving the quality of the board produced, the capacity of the plant has been substantially increased. This year equipment to produce clay-coated paperboard was installed. This is a new product for Western Canada and is an important quality board used in the manufacture of folding cartons.

Raw material for Burnaby Paperboard is primarily obtained by recycling paper from sources in Greater Vancouver and Northwest Washington State areas. With the present strong demand for paper products, the Company is actively studying and preparing plans to install a third paper machine in order to service the increased market demands for our products.

Overall Belkin Packaging sales increased 15 per cent but the contribution to Company earnings is lower this year (21c per share versus 26c last year). This reduction is entirely due to preproduction expenses incurred in the startup of the new corrugated plant and the milk carton division. To be consistent with prior practice, these costs have all been written off in the consolidated accounts and are reflected in the comparison of "minority interest in earnings" on the Earnings Statement. Had these costs not been absorbed in this manner but charged off over a period of years, earnings per share would have equalled last year's.

During the year a dividend of $300,000 was received from Belkin Packaging Ltd. This is equivalent to 12½c per common B.C. Sugar Refinery, Limited share. We believe the Belkin company is in an excellent position to show improved results in the coming year.

* * * *

During the fall shareholders approved Bylaw No. 36 which enabled the Company to issue Class B common shares. These shares are interchangeable with Class A and are eligible for dividends paid out of tax-paid surplus. As reported to shareholders, the choice as to which class of share they should hold is theirs and if they have any doubt, they should consult with competent tax consultants.

* * * *

In conclusion the Board of Directors would like to thank all the employees for their fine efforts and the contribution made to the well-being of the Company in the past year.

* * * *

Due to the delays encountered between finalizing the results for the year and the mailing of the annual report, shareholders were advised early in December as to the earnings per share.

The directors also met on November 30th and declared the regular quarterly dividend of 25c per share plus an extra of 40c on the Class "A" convertible common shares. For those shareholders who converted to Class B shares the tax-paid dividends declared amount in total to 55.25c per share calculated as follows:

| | |
|---|---|
| Total dividends on Class "A" shares | 65.00 cents |
| Less 15% tax paid by Company | 9.75 cents |
| Tax-paid dividends to Class "B" shareholders | 55.25 cents |

The dividends on both classes of shares are payable January 31st, 1974 to shareholders of record January 4th, 1974.

* * * *

Peter A. Cherniavsky

President

# B C SUGAR REFINERY, LIMITED
## AND SUBSIDIARY COMPANIES

### FIVE-YEAR HISTORICAL REVIEW

Sales

Earnings before income taxes

Provision for income taxes

Per common share

Consolidated net earnings

Preferred share dividend requirements

Net earnings on common stock

Per common share

Dividends declared on common stock

Per share — regular

— extra from previous year's earnings

Capital expenditures

Provision for depreciation

Working capital

Preferred share redemptions

*Before providing for an extraordinary charge of 23c per share.

THE BRITISH COLUMBIA SUGAR REFINING COMPANY, LIMITED

CANADIAN SUGAR FACTORIES LIMITED

THE MANITOBA SUGAR COMPANY LIMITED

BELKIN PACKAGING LTD.

CONSOLIDATED ACCOUNTS FOR THE YEAR ENDING SEPTEMBER 30, 1973

| 1973 | 1972 | 1971 | 1970 | 1969 |
|---|---|---|---|---|
| $97,644,000 | $87,123,000 | $71,408,000 | $54,587,000 | $45,785,000 |
| 11,697,000 | 9,828,000 | 8,408,000 | 7,460,000 | 7,892,000 |
| 5,250,000 | 4,673,000 | 4,200,000 | 3,827,000 | 4,039,000 |
| 2.19 | 1.95 | 1.75 | 1.59 | 1.68 |
| 5,941,000 | 4,550,000 | 3,854,000 | 3,533,000 | 3,853,000 |
| 168,333 | 168,333 | 173,750 | 182,500 | 196,250 |
| 5,772,515 | 4,381,667 | 3,680,250 | 3,350,500 | 3,656,750 |
| 2.40 | 1.83 | 1.53 | 1.40* | 1.52 |
| 1.00 | .80 | .80 | .80 | .73 |
| .25 | .20 | .20 | .20 | .17 |
| 1.25 | 1.00 | 1.00 | 1.00 | .90 |
| 2,417,000 | 3,435,000 | 2,642,000 | 1,411,000 | 1,330,000 |
| 3,168,000 | 1,750,000 | 1,707,000 | 1,333,000 | 1,232,000 |
| 15,845,000 | 12,748,000 | 11,608,000 | 10,374,000 | 10,762,000 |
| — | 33,340 | 100,000 | 200,000 | 300,000 |

# B C SUGAR REFINERY, LIMITED

AND SUBSIDIARY COMPANIES

## CONSOLIDATED STATEMENT OF EARNINGS AND REINVESTED EARNINGS FOR THE YEAR ENDED SEPTEMBER 30, 1973

(WITH COMPARATIVE FIGURES FOR 1972)

| | 1973 | 1972 |
|---|---|---|
| **Income** | | |
| Sales | $97,643,597 | $87,123,300 |
| Investment income | 47,867 | 20,476 |
| | 97,691,464 | 87,143,776 |
| **Expenses** | | |
| Cost of sales, selling and administrative expenses (Note 5) | 83,108,473 | 74,562,051 |
| Depreciation (Note 5) | 1,842,782 | 1,750,404 |
| Interest on long-term debt | 1,043,298 | 1,002,914 |
| | 85,994,553 | 77,315,369 |
| | 11,696,911 | 9,828,407 |
| **Income Taxes** | 5,250,000 | 4,672,722 |
| | 6,446,911 | 5,155,685 |
| Minority interest in earnings | 506,063 | 605,492 |
| **Earnings** for the year ($2.40 per common share: 1972 $1.83) | 5,940,848 | 4,550,193 |
| **Reinvested Earnings** | | |
| Balance at beginning of year | 13,997,370 | 12,015,510 |
| | 19,938,218 | 16,565,703 |
| Dividends | | |
| Preferred shares | 168,333 | 168,333 |
| Common shares | 3,000,000 | 2,400,000 |
| | 3,168,333 | 2,568,333 |
| Balance at end of year | $16,769,885 | $13,997,370 |

# B C SUGAR REFINERY, LIMITED

AND SUBSIDIARY COMPANIES

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 1973

(WITH COMPARATIVE FIGURES FOR 1972)

| | 1973 | 1972 (Reclassified) |
|---|---|---|
| **Source of Funds** | | |
| Current Operations | | |
| Earnings for the year | $ 5,940,848 | $ 4,550,193 |
| Dépreciation | 1,842,782 | 1,750,404 |
| Income taxes provided but not currently payable | 47,690 | 1,022,681 |
| Minority interest in earnings, after dividend | 206,063 | 605,492 |
| | 8,037,383 | 7,928,770 |
| Decrease in other assets | 14,863 | 254,971 |
| | 8,052,246 | 8,183,741 |
| **Application of Funds** | | |
| Investment in fixed assets | 2,417,413 | 3,434,702 |
| Payment of dividends | 3,168,333 | 2,568,333 |
| Redemption of preferred shares | — | 33,340 |
| Decrease (increase) in long-term debt, net (Note 3) | (629,970) | 1,006,679 |
| | 4,955,776 | 7,043,054 |
| Increase in net current assets | $ 3,096,470 | $ 1,140,687 |

# B C SUGAR RE
## AND SUBSIDIA
### CONSOLIDATED BALANCE SHE
(WITH COMPARATIVE

**ASSETS**

| | 1973 | 1972 (Reclassified) |
|---|---|---|
| **Current Assets** | | |
| Short term deposits | $ 6,400,000 | $ 1,425,000 |
| Accounts receivable | 9,264,573 | 8,097,330 |
| Inventories (Note 2) | 16,880,378 | 15,739,835 |
| Prepaid expenses | 648,663 | 441,248 |
| | 33,193,614 | 25,703,413 |
| **Fixed Assets at Cost** | | |
| Buildings and equipment | 59,926,109 | 58,081,160 |
| Less accumulated depreciation | 36,561,421 | 35,230,760 |
| | 23,364,688 | 22,850,400 |
| Land | 572,852 | 512,509 |
| | 23,937,540 | 23,362,909 |
| **Deferred Charges** | | |
| Bond discount and expenses, at cost less amortization | 278,653 | 298,557 |
| Deferred lease payments | 299,832 | 294,791 |
| | 578,485 | 593,348 |
| | $57,709,639 | $49,659,670 |

**Approved on behalf of the Board:**

F. Rogers, Director

P. A. Cherniavsky, Director

FINERY, LIMITED

RY COMPANIES

ET AS AT SEPTEMBER 30, 1973

FIGURES FOR 1972)

## LIABILITIES

| | 1973 | 1972 |
|---|---|---|
| **Current Liabilities** | | |
| Bank loans, secured | $ 2,945,805 | $ 1,977,593 |
| Accounts payable | 8,233,959 | 5,336,686 |
| Accrued liability to beet growers | 2,994,875 | 3,032,780 |
| Dividends payable | 642,083 | 522,083 |
| Income taxes payable | 1,478,729 | 1,118,482 |
| Current portion of long-term debt | 1,053,000 | 967,096 |
| | 17,348,451 | 12,954,720 |
| **Long-Term Debt (Note 3)** | 10,143,500 | 9,513,530 |
| **Income Taxes Provided but not Currently Payable** | 3,159,142 | 3,111,452 |
| **Minority Interest in Subsidiary Company** | 2,922,001 | 2,715,938 |
| | 33,573,094 | 28,295,640 |

## SHAREHOLDERS' EQUITY

| | 1973 | 1972 |
|---|---|---|
| **Share Capital (Note 4)** | | |
| Authorized | | |
| 300,000 Five percent cumulative Preferred shares redeemable at par value of $20 | | |
| 6,000,000 Common shares of no par value | | |
| Issued | | |
| 168,333 Preferred shares | 3,366,660 | 3,366,660 |
| 2,400,000 Common shares | 4,000,000 | 4,000,000 |
| **Earnings Reinvested in the Business (Note 5)** | 16,769,885 | 13,997,370 |
| | 24,136,545 | 21,364,030 |
| | $57,709,639 | $49,659,670 |

# B C SUGAR REFINERY, LIMITED

AND SUBSIDIARY COMPANIES

## NOTES TO FINANCIAL STATEMENTS

**1. Basis of Presentation**

The consolidated financial statements include the accounts of all wholly-owned subsidiary companies, namely The British Columbia Sugar Refining Company, Limited, Canadian Sugar Factories Limited, and the Manitoba Sugar Company Limited. The statements also include the consolidated accounts of the partly-owned subsidiary company, Belkin Packaging Ltd.

Certain items included in the financial statements at September 30, 1972 have been reclassified as follows:

(a) the amount by which the cost of the company's interest in a subsidiary company exceeds the book value at date of acquisition has been allocated to fixed assets,

(b) deferred income taxes relating to inventories of cane sugar have been transferred from prepaid expenses to inventories, and

(c) non-current accounts receivable have been included with current assets since the amounts are no longer material.

**2. Inventories**

Inventories of cane sugar are valued at the lower of replacement cost and cost on a LIFO (last-in, first-out) basis in respect of normal quantities. Other inventories are valued at the lower of average cost and replacement. The basis of valuing cane sugar is not currently allowable for income tax purposes, and the accumulated taxes amounting to $2,015,143 ($1,488,143 — 1972) applicable to the resulting excess of taxable income over reported income are included with inventories in current assets.

| **3. Long-term Debt** | **1973** | **1972** |
|---|---|---|
| 9½% First Mortgage Sinking Fund Bonds, Series "A", repayable $635,000 annually to 1986 and $610,000 in 1987 | $ 8,865,000 | $ 9,500,000 |

| | | |
|---|---|---|
| Term bank loan secured by chattel mortgage on equipment, repayable in quarterly instalments of $62,500 with interest at 2% above prime rate | 1,687,500 | — |
| 7.9% mortgage loan repayable $168,000 annually | 644,000 | 812,000 |
| Other secured debt | — | 168,626 |
| | 11,196,500 | 10,480,626 |
| Less principal included in current liabilities | 1,053,000 | 967,096 |
| | $10,143,500 | $ 9,513,530 |

Under the trust deed relating to the First Mortgage bonds, dividends may be paid provided earnings and working capital are maintained at certain levels. At September 30, 1973 earnings and working capital were in excess of such requirements.

**4. Share Capital**

Subsequent to the year-end, on October 24, 1973, Supplementary Letters Patent were issued effecting the reorganization of the Company's share capital approved by shareholders at the Special General Meeting held on September 5, 1973. The Company's 6,000,000 authorized common shares were converted into 3,000,000 Class A convertible common shares and 3,000,000 Class B convertible common shares, of which 2,400,000 issued and 600,000 unissued shares became Class A shares and 3,000,000 unissued shares became Class B shares. The new Class A shares are exactly the same in every respect as the former common shares except that they are convertible into Class B shares.

Those shareholders who elect to convert their Class A common shares into Class B common shares will be entitled to receive any tax-paid dividends distributed by the company. Shareholders may convert their shares from Class A to Class B and vice versa at any time of their own choosing. The Supplementary Letters Patent of October 24, 1973, also cancelled 131,667 preferred shares that previously had been redeemed.

**5. Supplementary Information**

(a) Belkin Packaging Ltd. contributed 23% of sales in 1973 and 1972.

(b) Assets used in the sugar operations are depreciated at rates approximately equal to maximum allowances at normal rates under the Income Tax Act. Assets used in the packaging operations are depreciated on a straight-line basis over the estimated economic lives of the various facilities.

(c) In 1973 no remuneration was paid by the company to any of its directors or officers. However, the aggregate directors' remuneration paid by a subsidiary company to the eight directors of the company as directors was $12,000 and to its seven officers, four of whom are also directors, was $467,032.

(d) Annual payments under leases in effect at September 30, 1973 are approximately $360,000.

(e) Reinvested earnings include capital surplus of $2,633,340 appropriated on the redemption of preferred shares.

# AUDITORS' REPORT

## TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of B C Sugar Refinery, Limited and its subsidiaries at September 30, 1973 and the consolidated statements of earnings and reinvested earnings and source and application of funds 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 consolidated financial statements present fairly the financial position of the companies as at September 30, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE GUNN & CO.
Chartered Accountants

Vancouver, B.C.
December 17, 1973