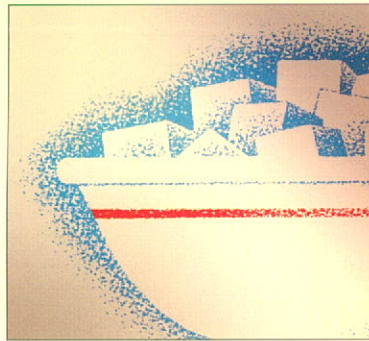
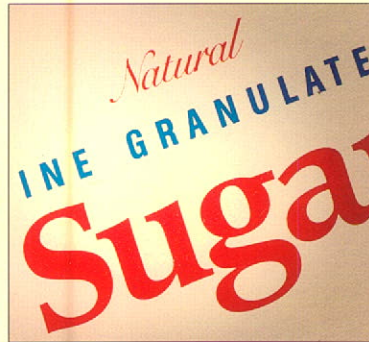
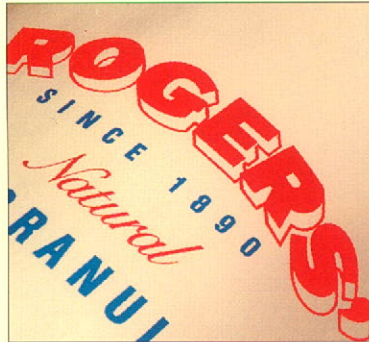


BC Sugar

BC SUGAR REFINERY, LIMITED

ANNUAL REPORT 1994



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Annual Report
MCGILL UNIVERSITY

BC SUGAR REFINERY, LIMITED

Corporate Office

Location:

123 Rogers Street, Vancouver, B.C.

Postal Address:

Box 2150, Vancouver, B.C., V6B 3V2

Telephone: (604) 253-1131

Facsimile: (604) 253-2517

Transfer Agents

Montreal Trust Company of Canada

Stock Listing

Toronto Stock Exchange

Annual Meeting

The Annual Meeting of Shareholders
will be held on Wednesday,

February 22, 1995 at 3:00 P.M.

in the Park Ballroom of the

Four Seasons Hotel,

Vancouver, British Columbia

Auditors

KPMG Peat Marwick Thorne

Chartered Accountants

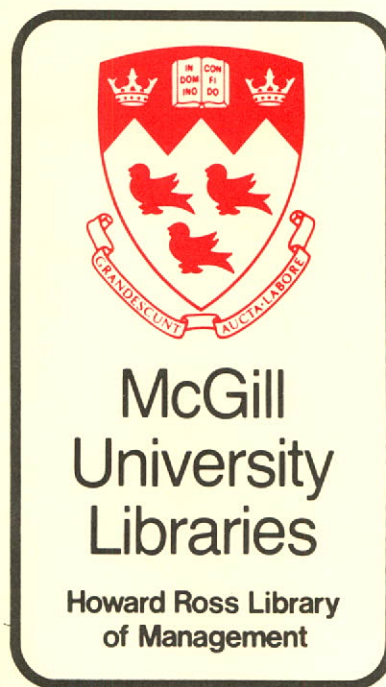
Vancouver, B.C.

Corporate Solicitors

Bull, Housser & Tupper

Barristers & Solicitors

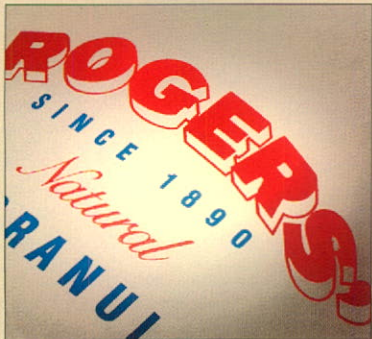
Vancouver, B.C.



FINANCIAL HIGHLIGHTS

(000's omitted, except per share amounts)

YEARS ENDED SEPTEMBER 30	1994	1993
Revenues	\$ 794,308	\$ 706,173
Earnings before non-recurring items, net of related income taxes	\$ 10,916	\$ 15,023
Net earnings	\$ 26,536	\$ 15,023
Dividends	\$ 9,967	\$ 9,567
Average net shares outstanding	24,722	23,807
PER COMMON SHARE		
Earnings before non-recurring items, net of related income taxes	\$.44	\$.63
Net earnings	\$ 1.07	\$.63
Dividends	\$.40	\$.40



Sales by the Company's
Western Operations reached
record levels in 1994.



The eastern Canadian
market was strong but highly
competitive in 1994.



In the U.S., 1994 was
marked by fierce competition
in all market sectors.

REPORT TO SHAREHOLDERS

BC Sugar

Significant progress was made to improve the Company's already strong customer relations programs. Proven relationships have yielded benefits to all parties in the past and have ensured continuity of supply of a quality product to our customers.

1994 saw the conclusion of a plan, initiated in the late 1980's, for the transition of BC Sugar from a diversified regional sugar producer to a major participant in the North American sugar industry. As a result, 1994 marked the year in which corporate sugar revenues reached record levels. It was, however, a year of ongoing frustration regarding Canada/United States trade in sugar and sugar-containing products. In addition, the domestic sugar price support program in the U.S. has had a continued negative effect on the profitability of the Company's U.S. Operations.

Revenues for fiscal 1994 totalled \$794.3 million, compared to \$706.2 million in 1993. Revenue growth resulted primarily from increased sales volumes and an increase in the average world price of raw sugar. However, in spite of record production, earnings before non-recurring items, net of related income taxes, were \$10.9 million, compared to \$15.0 million in the previous year. On a per share basis, earnings before non-recurring items were \$.44 compared to \$.63 in fiscal 1993.

Net earnings, after inclusion of several items not considered typical of the normal business activities of the Company, were \$26.5 million, or \$1.07 cents per share.

Sales margins in both Canada and the United States remained under pressure from excess U.S. beet sugar production. Record crops continued to erode selling prices for refined sugar in the U.S., while beet sugar which was surplus to U.S. domestic market needs was dumped into Canada.

The United States government has introduced marketing allotments for domestic beet and raw cane sugar for the crop year beginning October 1, 1994. While it is too early to assess the long-term effects of this action in the U.S., initial indications are that sales margins are improving. The imposition of marketing controls on sugar produced from beets and cane grown in the U.S., together with an established review date for the U.S. Farm Bill in late 1995, augers well for the future of the refining industry in that country.

The introduction of marketing allotments by the United States may prove quite negative to the profitability of the Canadian sugar industry should U.S. beet producers with excess production take the opportunity to dump more sugar into Canada.

During the year, discussions have been held between the Canadian and U.S. governments concerning equitable trade between the two countries in sugar and sugar-containing products. However, proposed changes to the U.S. tariff schedule, will, if enacted as scheduled in 1995, severely restrict current access for Canadian exports of sugar and sugar-containing products. In the meantime, the United States continues to enjoy unrestrained access to the Canadian domestic sugar market. Together with the Canadian Sugar Institute, BC Sugar continues to press the Federal government for a just and equitable resolution of these unfair trade practices.



William C. Brown
President and Chief Executive Officer

Consistent with the plan to focus on the Company's core sugar operations, BC Sugar completed the sale of Kalama Chemical, Inc. in May, 1994. Proceeds of approximately \$82 million from this divestiture have reduced debt to the target levels anticipated at the time of the acquisition of Lantic Sugar, and will have a beneficial effect through reduced future interest costs.

While the sale of Kalama essentially completed the final step in the Company's strategy to dispose of its non-sugar assets, management of certain historical environmental obligations and recoveries relating to the specialty chemical sites will require BC Sugar's involvement for some time. The nature and extent of exposure and offsetting recoveries is more fully outlined in the notes to the 1994 financial statements.

From an operational standpoint, management efforts in 1994 were concentrated largely on offsetting declining margins through a combination of marketing, synergy and cost control programs. Unfortunately, certain of these programs have resulted in the loss of jobs. It remains critical, however, that BC Sugar be the lowest cost producer possible to ensure the Company's long-term success. Reports from the individual operating divisions, which follow, provide some detail of the success we have encountered in our many cost reduction programs and speak to future prospects in their respective geographic markets.

Significant progress was made this year to improve the Company's already strong customer relations programs. Proven relationships have yielded benefits to all parties in the past and have ensured continuity of supply of a quality product to our customers. BC Sugar will strive to maintain these valued affiliations.

We would like to thank all our shareholders, customers, suppliers, advisors and employees for their support this past year and look forward to their continued involvement in our success.

On behalf of the Board

A handwritten signature in dark ink, appearing to read 'W. C. Brown', written over a horizontal line.

William C. Brown

President and Chief Executive Officer

December 1, 1994

WESTERN OPERATIONS

The British Columbia Sugar Refining Company, Limited



In 1995, operations in Alberta and Manitoba will slice more beets and produce more sugar than in any previous year.

MARKET Sales by Western Operations reached a record 271,000 tonnes in 1994. An effort to maximize capacity utilization, aided by a weak raw sugar market early in the fiscal year, resulted in increased sales to the soft drink sector and exports to the United States. In 1994, Western Operations, which markets its sugar under the Rogers' brand, supplied approximately 90 percent of the western Canadian domestic nutritive sweetener market despite increased competition from U.S. sources.

A disappointing 1993 sugar beet crop in both Alberta and Manitoba further contributed to increased production levels in Vancouver. Poor weather during the growing season, as well as subsequent warm temperatures in Alberta, caused beet deterioration and sugar losses. The combination of these factors led to reduced prairie production of 113,000 tonnes compared to a budget of 130,000 tonnes. Consequently, capacity utilization in the Vancouver refinery was increased, and the resulting 150,000 tonnes of production was the highest since 1986.

OPERATIONS Financial results for Western Operations in 1994 were comparable to those for 1993. Improved returns from exports to the United States and increased capacity utilization at the Vancouver refinery were, however, largely offset by increased production and freight costs required to service the prairie market from Vancouver, together with inefficiencies resulting from reduced production in the prairies. In addition, approximately 20,000 tonnes of the increased sales were made to very low margin industrial accounts.

Operating results were further affected by a five-week labour disruption in Manitoba. It concluded with a three-year agreement, with provision for two additional three-year agreements and a no-strike, no-lockout clause for the overall nine-year period.

GENERAL Significant time and effort was devoted in 1994 to develop information systems and procedures to provide a more comprehensive analysis of the business and to identify further efficiencies. These initiatives have assisted in the continued emphasis on cost containment and cost reduction which, over the past 2 years, have resulted in annualized savings of approximately \$5 million.

OUTLOOK There is no single issue that will impact the financial success of BC Sugar more than that of Canada/ United States trade in sugar and sugar-containing products. The successful future of the Company's operations depends on the satisfactory resolution of these matters.

Canada is under no formal restraint as to the amount of beet sugar that it may ship into the United States. From October 1, 1995, however, the new U.S. GATT tariff schedules likely will restrict the world quota for refined sugar imports to 22,000 tonnes. Canada will compete with other nations for a share of this vastly reduced market access to the United States.



Although Western Operations do not produce a significant level of sugar for sugar-containing products, the new U.S. restrictions on the importation of these products will negatively impact the market for sugar in western Canada as well as in the rest of the country. The entire domestic sugar industry continues to work with the Canadian government in an effort to redress these grossly unfair trade practices of the United States.

Paradoxically, while the U.S. government continues to erect new barriers to the importation of sugar-containing products from Canada, U.S. sugar producers are becoming more aggressive in the Canadian marketplace.

We anticipate a very successful beet campaign in 1995. Alberta Sugar and Manitoba Sugar will slice more beets (1,200,000 tonnes) and produce more sugar (160,000 tonnes) than ever before in the history of the Company. Vancouver's production will be in the 100,000 tonnes to 120,000 tonnes range depending on the requirements of the soft drink industry. The current high world market price for raw cane sugar suggests that the lower estimate is more likely as soft drink industry sales could be lost to more competitively priced High Fructose Corn Syrup.

These production targets assume that Western Operations will maintain most of its domestic business. However, sales margins will continue to be under extreme competitive pressure as long as excess U.S. refined sugar maintains unrestricted access to the Canadian market.

1995 will include a further major program to target and reduce costs and inefficiencies in Western Operations.

EASTERN OPERATIONS

Lantic Sugar Limited ("Lantic")



**To remain competitive
and secure a steady**

return to shareholders, Lantic

continues to focus on reducing costs

to maintain its position as a low-

cost producer.

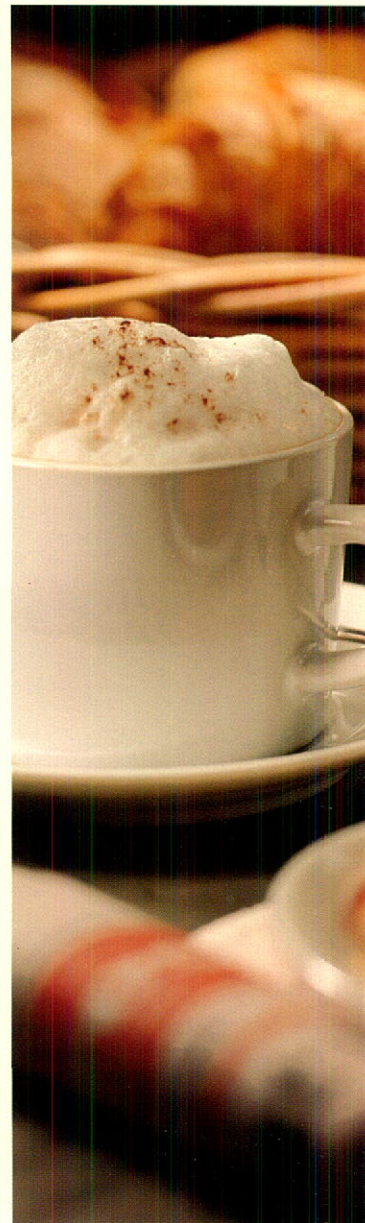
MARKET The eastern Canadian market was strong but highly competitive in 1994. Lantic's sales volume increased by 2 percent from 1993, the third consecutive year of volume growth. The increase can be largely attributed to lower and more stable raw sugar prices. In addition, export sales of foods with high sugar content were slightly above last year's level.

Competitive pressure in the marketplace intensified toward the latter part of the fiscal year. U.S. sugar imports which were initially sold to industrial

customers were later made available to grocery distributors at very low net margins. In order to maintain market share, Lantic chose to meet the competition head on. In a number of instances, the booking of unprofitable business was necessary to secure the hard-won position of leader in the eastern Canadian sugar market.

OPERATIONS In the effort to remain competitive and secure a steady return to shareholders, Lantic continues to focus on reducing costs to maintain its position as a low-cost producer in North America. Through a combination of capital investment and dedication to total quality and continuous improvement, unit production costs were reduced by 3.4 percent from the previous year, and Lantic will continue to seek cost improvements. In the period since BC Sugar acquired 100 percent ownership of Lantic, cost improvement programs have resulted in a reduction of nearly 11 percent in manpower and total savings of approximately \$5 million. Further manpower reductions of around 10 percent will, together with other efficiencies, result in additional annualized savings of approximately \$4 million over the next 18 months with the implementation of process re-engineering recommendations. Related innovations will emphasize the making of key processes more effective and efficient, while maintaining product quality and customer satisfaction.

GENERAL With the uncertainties surrounding the economic and political instability of Cuba and the related effect on the world raw sugar market, the Company has negotiated significant agreements with major raw sugar suppliers. The resulting contracts assure BC Sugar's Canadian cane refineries a steady supply of high quality raw sugar at competitive prices. A similar strategy was adopted for natural gas purchases to protect Lantic's energy costs from exposure to the vagaries of commodity price swings.



OUTLOOK 1995 will be a year of even greater challenges. Announced sanctions by the U.S. on sugar-containing products shipped from Canada could take effect on January 1, 1995. In addition, with marketing allotments now imposed in the U.S., the intrusion of U.S. beet sugar into Canada may be intensified at even lower net margins than are now in evidence. As in the past, Lantic will invest to maintain its current market share. This strategically considered decision will confirm its position as market leader in eastern Canada and will

result in appropriate returns to shareholders on a long-term basis.

Lantic has made progress in the goal to achieve ISO 9000 certification. Attainment of this certification will further accredit the mission to be recognized as a quality producer and supplier of sugar products in North America.

Although profitability may be negatively impacted in 1995, the investment undertaken in order to maintain market share will assure Lantic's contribution to the future profitability of BC Sugar.



U.S. OPERATIONS

Refined Sugars, Inc. ("RSI")



**RSI remains
committed to**

**providing quality products to an
expanding customer base.**

MARKET Fiscal year 1994 was marked by fierce competition in both the industrial and grocery sectors. A large sugar beet crop combined with above average carryover stocks to depress refined sugar prices throughout the year. Refining margins eroded to their lowest level in six years.

Despite these conditions, the Secretary of Agriculture chose not to implement marketing allotments for fiscal 1994. As a result, two beet processors forfeited refined sugar to the Commodity Credit Corporation of the U.S. government thus violating the "no cost" provision of the Sugar Program. This eventually led to a joint industry position in support of marketing allotments for fiscal 1995, and these allotments were put in place effective October 1, 1994.

As a counter to appalling market conditions, RSI concentrated its efforts on product line diversification and market expansion. Sugar consumption in the U.S. has grown an average of 2 percent per year for the past four years, and this market growth is expected to continue. With this in mind, new products were added to satisfy current customer needs as well as attract new clients. This expansion has been accomplished with minimal capital investment.

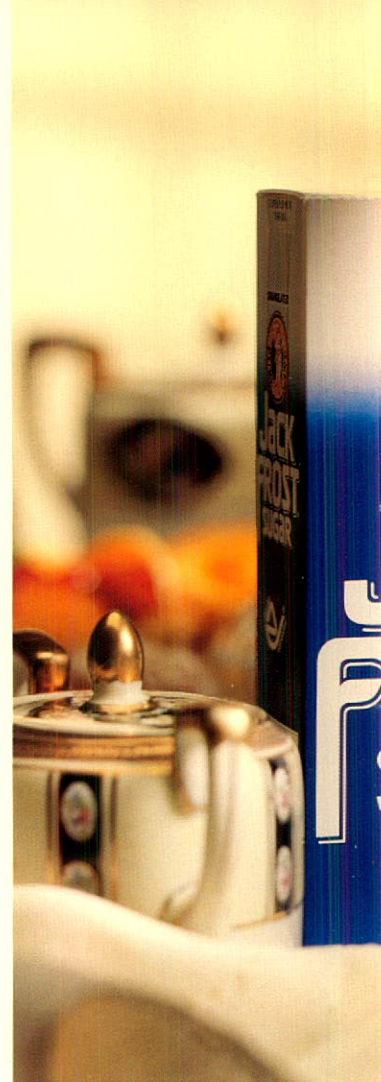
Refined Sugars, Inc. remains committed to provide quality products to an expanding customer base in a competitive environment.

OPERATIONS The focus of the manufacturing side of RSI in 1994 has been to improve operating efficiencies, rationalize costs and increase productivity.

Continuous Improvement Teams were organized to increase daily throughput, lower energy usage and improve yield results. Other teams developed projects to control and reduce the cost of purchasing, receiving and handling materials used in both processing and packaging RSI's products. Since BC Sugar acquired 100 percent ownership of RSI, cost reduction programs have resulted in annualized savings of approximately \$9 million.

During fiscal 1994, the refinery set a monthly productivity record, producing the highest hundredweight of total production per man-hour and the highest granulated production per man-hour ever. Five months in 1994 were among the ten highest productivity months on record. All of this was accomplished with continued awareness of both safety and plant condition and led to another record – the lowest levels ever in overall accident Frequency and Severity rates.

In addition, RSI recorded the highest score in its history in American Sanitation Institute audits this year. This rating was reconfirmed in September, 1994, when the Quality Assurance audit team of a major customer awarded RSI an "Excellent" rating – the highest possible.





These accomplishments may be directly attributed to the experienced and dedicated employees who give their best effort every day.

GENERAL In 1994, Refined

Sugars, Inc. entered into an agreement with the Taiwan Sugar Corp. to provide technical services related to their construction of a cane sugar refinery in Taiwan. This reaffirms the level of refining technology expertise in the BC Sugar group.

A co-generation plant agreement between Refined Sugars, Inc. and a third party was terminated in 1994. This provided RSI with a \$13.2 million cancellation settlement which has been recorded in this year's results.

OUTLOOK Marketing allotments have been imposed for fiscal year 1995, limiting the amount of sugar that beet processors can market domestically this year. As a result, the downward pressure on refined prices should subside with a resultant opportunity for improved refining margins.

The 1990 Farm Bill expires on December 31, 1995. The climate for substantial change in the sugar provisions of the 1995 Farm Bill has never been more favourable. Most U.S. cane refiners are losing money and are aligned on the necessity to modify the existing program to allow them to regain some margin of profitability. The current make-up of the Congress and membership of the Agriculture Committee has a decidedly urban bias, many members having never voted on a Farm Bill. This is viewed as an opportunity for Refined Sugars, Inc. to improve the legislative environment under which it is forced to operate.

In late September, 1994, RSI completed a reorganization plan under the auspices of a Work Process Review. All job functions were thoroughly analyzed and a plan was developed to consolidate activities throughout U.S. Operations. Much of this reorganization has already been completed with the balance to be implemented in stages during 1995. The result will be further annual savings in operating costs of over \$3 million, a majority of which will be realized in fiscal 1995.

The combination of being a low-cost producer on the east coast, government imposed limitations on beet marketing and an improved outlook on pricing bodes well as RSI begins fiscal year 1995. Customer and supplier relationships are stronger than ever. The common commitment of our employees is very evident with significant improvements in productivity, customer service and product quality.

BC SUGAR...

TRANSITION AND EVOLUTION IN THE 90'S

BC Sugar

The Company has successfully executed the plan envisioned by management in early 1990.

The acquisition of a major sugar company has been completed and all sugar operations are now fully integrated.

As the 1980's drew to a close, it became clear that BC Sugar's future as a small regional producer in the North American sugar industry was limited. Over the preceding decade, the number of industry participants had declined, with most of the remaining cane refiners and sugar beet processors becoming larger and more dominant in their respective markets. Large, low-cost producers were the probable success stories of the future.

To achieve growth and an improved cost structure, BC Sugar needed to expand its core sugar business in North America. Such expansion was achievable only through acquisition. With growth would come the opportunity to reduce costs as synergistic opportunities were pursued and economies of scale realized.

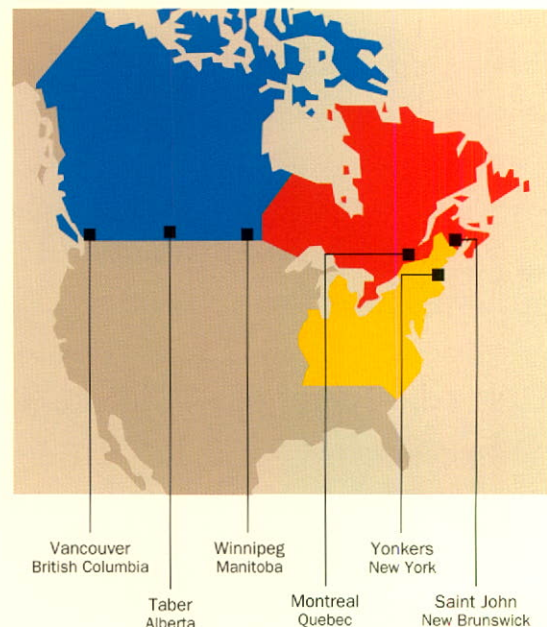
THE STRATEGY With the identification of acquisition opportunities and the decision to concentrate corporate focus on the core sugar business,

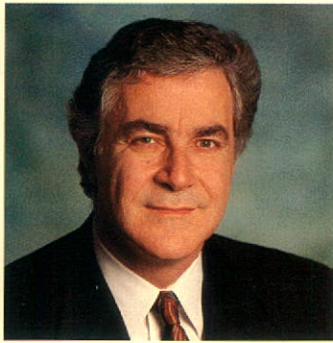
non-sugar assets within the BC Sugar group would need to be sold. Proceeds from the sale of these assets, together with new equity raised through public markets, would finance core business purchases.

PURCHASE OF LANTIC SUGAR In March of 1991, and with an effective date of December 31, 1990, BC Sugar completed the purchase of the first 50 percent of the shares of Lantic Sugar Limited from Jannock Limited for \$110 million. Lantic owned cane refineries in Saint John, New Brunswick and in Montreal, Quebec, and Lantic's U.S. subsidiary, Refined Sugars, Inc., operated a refinery in Yonkers, New York. These refineries produced over four times BC Sugar's historical annual sales volume. In addition, they provided a natural geographic extension of the Company's existing facilities in Winnipeg, Manitoba, Taber, Alberta and Vancouver, British Columbia.

Pursuant to the shareholders' agreement between the two companies, BC Sugar bought the second half of Lantic from Jannock in August, 1992, under a predetermined formula. The remaining 50 percent of the shares of Lantic were purchased effective June 30, 1992 for cash consideration of \$120 million.

The acquisition of Lantic completed the planned transition of BC Sugar from a western Canadian sugar producer to the third largest sugar company in North America.





Bill Brown

Jim Hudson

David Elliott

André Bergeron

Greg Hoskins

Claudio Bussandri

FOCUS ON THE CORE BUSINESS

Sale of interest in Anderson Exploration

BC Sugar entered the oil and gas industry in 1976 with an investment in Fairweather Gas Ltd. Fairweather was subsequently amalgamated with five other companies to form Anderson Exploration Ltd., a company headquartered in Calgary, Alberta and engaged in the acquisition, exploration, development and production of petroleum and natural gas resources in western Canada.

In 1988, approximately one-half of BC Sugar's interest in Anderson was distributed as a special dividend to BC Sugar shareholders, reducing the Company's interest in Anderson to 20.3 percent. In connection with the dividend, Anderson filed a shelf prospectus and its common shares were listed and posted for trading on the Toronto Stock Exchange.

Subsequent share issuances by Anderson reduced BC Sugar's interest to 17.9 percent, and in the spring of 1992

the Company sold all its remaining shares in Anderson for net proceeds of \$33.5 million.

Closure of Chatterton Petrochemical In 1984, BC Sugar acquired 60 percent ownership of Chatterton Petrochemical Corporation, a company previously formed to acquire Dow Chemical's phenol/benzoic acid plant in Delta, B.C. Ownership of Chatterton was increased by 20 percent in 1986, and the remaining 20 percent interest was purchased in 1988.

In January, 1992, in the face of continuing financial losses and the absence of long-term viability, the Company announced the shutdown of Chatterton. The orderly cessation of operations was completed in June, 1992, and, with dismantling of the plant now complete, Chatterton's lands are available for sale.

Sale of Kalama Chemical In December, 1986, the Company acquired a 49.98 percent interest in the common shares of Kalama Chemical, Inc., a specialty chemicals company headquartered in Seattle, Washington. By 1990, through a series of additional equity purchases, BC Sugar had increased its ownership of Kalama to 100 percent.

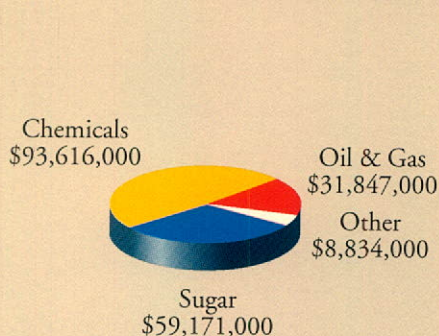
In December, 1993, Kalama reached agreement to sell its specialty chemical and intermediates business at its Garfield, New Jersey site for proceeds of US \$2.75 million. This transaction was integral to the divestiture by BC Sugar of Kalama as a whole. In May of 1994, BC Sugar completed the sale of its 100 percent interest in Kalama to Freedom Chemical Company of Philadelphia for cash proceeds of approximately \$82 million.

COMMON SHARE ISSUES In June, 1992, the Company completed a public share issue of 8,450,000 common shares for proceeds of \$75 million. This issue, together with the proceeds from the sale of Anderson, provided sufficient funds to repay the majority of the interim bank financing associated with the purchase of the first 50 percent of Lantic.

In March, 1993, in order to complete the restructuring of its equity base, the Company undertook a further issue of 2,000,000 common shares for proceeds of \$19 million. These proceeds, together with the subsequent sale of Kalama and cash available in the new core sugar group were used primarily to reduce debt levels incurred with the purchase of the second 50 percent of Lantic.

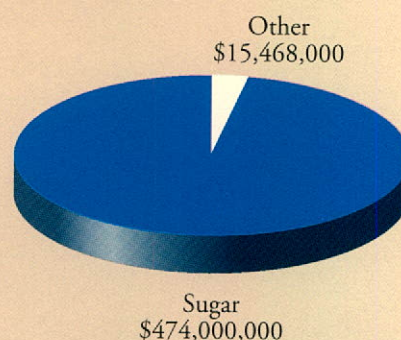
SUMMARY Over the past several years, the Company has successfully executed the plan envisioned in early 1990.

CONSOLIDATED OPERATIONS – TOTAL ASSETS



September 30, 1990

Total \$193,468,000



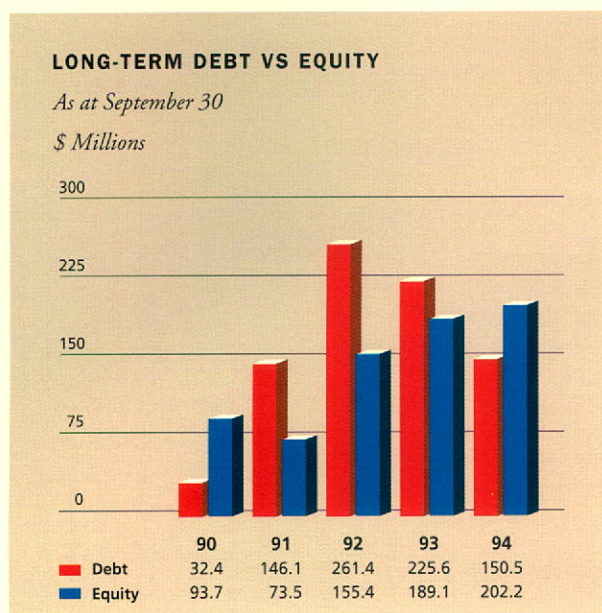
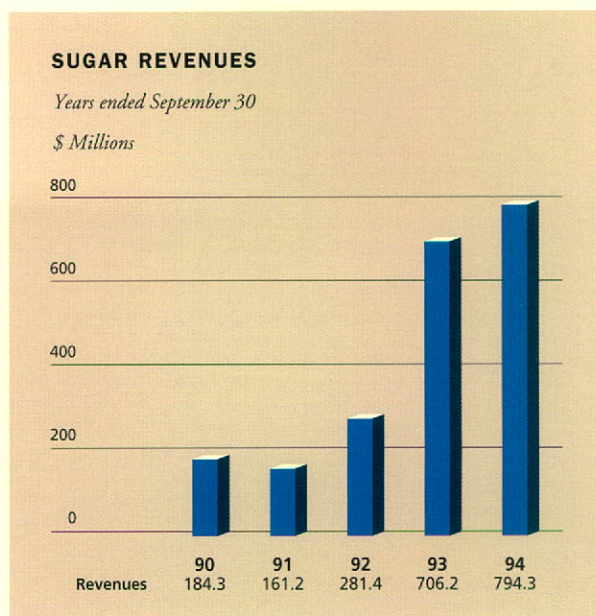
September 30, 1994

Total \$489,468,000

The acquisition of a major sugar company has been completed and all sugar operations are fully integrated. Revenues have grown substantially through these acquisitions.

Other than the Chatterton plant site, all major non-sugar assets have been sold. Proceeds from these sales, together with funds raised through successful equity issues, have been utilized to restore corporate debt to a comfortable level and to position BC Sugar to take advantage of future opportunities as they arise.

For the period from December, 1990 through September, 1994, savings in excess of \$20 million have been accomplished through a combination of synergies, economies of scale and process cost improvements.



In fiscal 1995, additional annual savings in excess of \$8 million are expected to be realized. These programs have maintained the profitability of BC Sugar despite the current climate of margin attrition in both Canada and the United States.

As expected sales margin improvements materialize in future years, the full benefit of low-cost producer status will be reflected in increased cash flow and improved earnings.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL 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.

The sugar operations of BC Sugar include The British Columbia Sugar Refining Company, Limited, a wholly-owned subsidiary operating a cane refinery located in Vancouver, British Columbia and beet factories located in Taber, Alberta and Winnipeg, Manitoba ("Western Operations"), and the operations of Lantic Sugar Limited ("Lantic"), which operates cane refineries in Saint John, New Brunswick, and Montreal, Quebec and its wholly-owned subsidiary Refined Sugars, Inc. ("RSI") which has a cane refinery in Yonkers, New York.

The specialty chemical operations of BC Sugar included Kalama Chemical, Inc. ("Kalama"), which operated specialty chemical plants in Kalama, Washington and Garfield, New Jersey, and Chatterton Petrochemical Corporation ("Chatterton") which owned a facility located in Delta, British Columbia that ceased operation in 1992. Substantially all of the specialty chemical operations were disposed of during the fiscal year.

BC Sugar's balance sheet at September 30, 1994 reflects the consolidation of the assets and liabilities of the sugar operations, the consolidation of the remaining assets of Chatterton, which are limited to a parcel of land located in Delta, British Columbia, and sundry other assets. The balance sheet at September 30, 1993 reflects the consolidation of all of the assets and liabilities of the sugar operations and specialty chemical operations.

BC Sugar's consolidated statements of earnings for the years ended September 30, 1994 and 1993 reflect the revenues and expenses of the Company's sugar operations. In accordance with the recommendations of the Canadian Institute of Chartered Accountants, the revenues and expenses of the specialty chemical operations for the year ended September 30, 1993 and for the period from October 1, 1993 to the date of disposal on May 26, 1994 have not been recorded in, and have no effect on, the consolidated statements of earnings.

RESULTS OF OPERATIONS Revenues have increased by approximately \$88 million or 12 percent in 1994 over revenues reported in 1993. This increase is due mainly to a combination of:

- sales volume increases of 1 percent over the corresponding period a year earlier;
- an increase of 17 percent in the average world price of raw sugar (see Chart B) which directly affects revenues from Canadian operations; and
- a stronger U.S. dollar which affected the translation of U.S. dollar sales of RSI.

Chart A

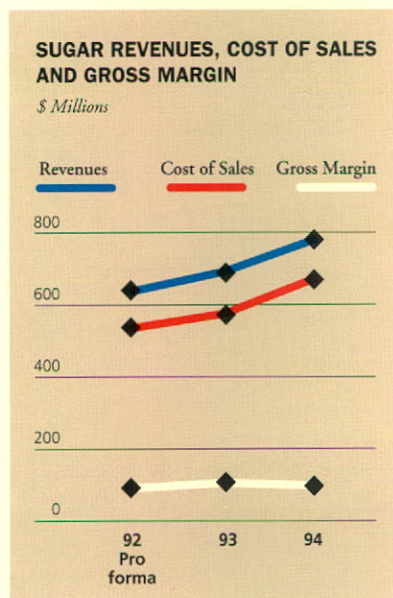
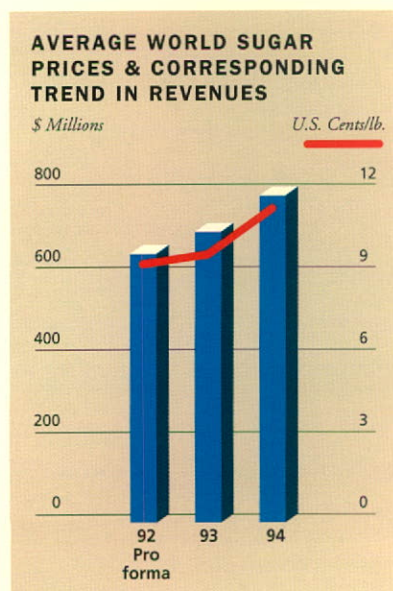


Chart B



(note: Pro forma amounts assume Lantic was owned throughout 1992. BC Sugar purchased the second 50 percent of Lantic on June 30, 1992)

Charts A and B as shown, demonstrate that revenues and cost of sales are directly affected by changes in world sugar prices; however, gross margin is largely unaffected by these changes.

World raw sugar prices are determined primarily by global supply and demand; in times of oversupply, the price falls. A refining margin is added to the cost of raw sugar to set a base selling price for refined sugar.

These principles also apply to the U.S. operations of the Company, except that in the U.S., a domestic price support program maintains the price of raw sugar at a level significantly above the world market price.

The major factors which affect gross margin are production costs and discounts offered to customers to offset the effect of competition.

Gross margin (Revenues less Cost of Sales) has decreased by approximately \$8 million from \$117 million in 1993 to \$109 million in 1994.

The 1994 decrease in consolidated gross margin is largely attributable to two factors:

- 1) In Canada, increased discounts were required to meet competitive prices, especially from U.S. producers who are selling in Canada at prices below U.S. domestic prices; and
- 2) In the U.S., refined sugar prices fell during the year due to an over supply of refined sugar because of large sugar beet crops in 1993 and 1994.

Increased sales volumes in Canada and lower refining costs somewhat mitigated the effects of these factors.

Consolidated earnings from sugar operations before non-recurring items and income taxes have decreased to approximately \$25 million in 1994 from \$27 million in 1993, due to a decreased gross margin of approximately \$8 million, offset by \$6 million in lower interest expense and selling, general and administrative costs.

The decrease in interest expense is due largely to the reduction of debt of approximately \$82 million from cash received in late May 1994 on the sale of the specialty chemical operations.

Selling, general and administrative expenses have declined due to the introduction of cost reduction programs throughout the Company.

EARNINGS In 1994, BC Sugar recorded net earnings of \$26.5 million compared to \$15 million in 1993. Net earnings in 1994 include earnings from non-recurring items of approximately \$15 million. Earnings from non-recurring items include a \$13 million gain on the settlement of an energy supply contract and a \$4 million gain resulting from a change in a post-retirement benefit plan of the Company's U.S. subsidiary. The sum of these gains is offset by a \$2 million charge for restructuring costs relating to the reorganization of the Company.

Net earnings from sugar operations declined to \$11 million or 44 cents per share in 1994, compared to \$15 million or 63 cents per share in 1993. The main factors contributing to this decline are those discussed above.

Net earnings per common share increased from 63 cents per share in 1993 to \$1.07 per share in 1994. This increase is due to the effect of the non-recurring items discussed above.

EXTERNAL AND INDUSTRY FACTORS IMPACTING OPERATING RESULTS BC Sugar's sugar products are marketed in western Canada as Rogers' Sugar, 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.

The Company faces competition from High Fructose Corn Syrup, particularly when world sugar prices rise, and from refined sugar imported from the United States, the Far East and the European Economic Community. Canada does not impose import quotas nor meaningful tariffs on sugar or other sweeteners. The Company has met the influx of sugar imports with increased discounts and ongoing incentive programs to help counter these competitive factors and to stimulate sales. The result has been lower sales prices resulting in a decline in gross margins. Management will continue to offer competitive pricing and concentrate on reducing costs to mitigate the effects of imported sugar.

Export access to sugar markets in the United States is managed by a quota system, and any refined sugar shipped from Canada into the United States must be produced from domestically grown sugar beets rather than from imported raw cane sugar. BC Sugar is the only producer of beet sugar in Canada.

EFFECTS OF CHANGING PRICES 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 1994 or 1993.

The Company protects itself against fluctuations in raw sugar prices by entering into commodities futures contracts and options on regulated futures markets for the purpose of hedging sugar inventories and related purchase and sale commitments.

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

During 1994, the Company sold its specialty chemical operations for proceeds of \$82 million. The proceeds from this sale were used to reduce long-term debt by \$69 million and operating lines of credit by \$13 million.

Except for normal maintenance and capital improvements which will be financed out of operating income, the Company has no plans which would require additional capital resources.

As at September 30, 1994, the Company had cash and operating lines of credit of \$154 million of which \$18 million were utilized. These lines of credit are subject to certain bank margin requirements.

SPECIALTY CHEMICAL OPERATIONS The Company disposed of its specialty chemical operations on May 26, 1994 for proceeds of \$82 million, resulting in excess proceeds of \$36 million over the total carrying value of the specialty chemical operations.

The amount of \$36 million has been reflected in the balance sheet as deferred revenue and will continue to be deferred in the future until such time as future expenditures and third party recoveries relating to certain environmental obligations are determinable.

In addition to the deferred revenue amount, Kalama established a Trust as a condition of the sale to deal with its historical environmental obligations. At September 30, 1994 the Trust had approximately U.S. \$12 million in cash. Kalama is required to pay into the Trust, any recoveries relating to historical environmental obligations of Kalama received from insurance carriers or other third parties.

The Company's maximum exposure to the environmental obligations resulting from the Kalama sale is U.S. \$44 million. Management has reviewed the environmental obligations and consulted with environmental consultants, legal advisors, insurers and former owners of the specialty chemical operations to determine whether the deferred revenue and amount held in trust will be sufficient to discharge such environmental obligations. Based on these discussions, management is of the view that the deferred revenue of \$36 million and cash in trust of U.S. \$12 million will be sufficient to discharge the environmental obligations as they become due.

FUTURE OPERATIONS Management does not expect any major changes in the supply and demand or pricing of world raw sugar over the foreseeable future. Because of the uncertainties surrounding the overproduction of beet sugar in the U.S. market and the corresponding pressure of imported sugar in the Canadian market, management cannot accurately determine the effects of these matters on the future profitability of the Canadian operations at this time.

However, if enacted, proposed changes to the U.S. tariff schedule will severely restrict current access to the United States for Canadian exports of sugar and sugar-containing products. In the meantime, the U.S. continues to enjoy unrestrained access to the Canadian domestic sugar market.

As discussed elsewhere in this Annual Report, the Company, together with the Canadian Sugar Institute, continues to press the Canadian government for a just and fair resolution of these inequitable trade practices.

Management will continue to focus on implementing efficiency improvements at all of the Company's facilities.

STATEMENTS OF EARNINGS

BC Sugar Refinery, Limited and Subsidiary Companies, Years ended September 30

<i>(In Thousands of Dollars)</i>	1994	1993
Revenues	\$ 794,308	\$ 706,173
Costs and expenses		
Cost of sales	685,128	588,881
Selling, general and administrative	45,777	47,862
Depreciation and amortization	16,120	16,210
Long-term debt interest	21,178	24,912
Other interest	869	878
Total costs and expenses	769,072	678,743
	25,236	27,430
Non-recurring items <i>(Note 8)</i>	14,684	—
Earnings before income taxes	39,920	27,430
Income taxes <i>(Note 9)</i>	13,384	12,407
Net earnings	\$ 26,536	\$ 15,023
Basic earnings per common share <i>(Note 12(a))</i>	\$ 1.07	\$.63

STATEMENTS OF RETAINED EARNINGS

BC Sugar Refinery, Limited and Subsidiary Companies, Years ended September 30

<i>(In Thousands of Dollars)</i>	1994	1993
Balance, beginning of year	\$ 18,766	\$ 13,532
Net earnings	26,536	15,023
	45,302	28,555
Less:		
Share issue expenses	—	222
Dividends	9,967	9,567
Balance, end of year	\$ 35,335	\$ 18,766

BALANCE SHEETS

BC Sugar Refinery, Limited and Subsidiary Companies, As at September 30

(In Thousands of Dollars)

1994

1993

ASSETS

Current assets

Cash	\$ 592	\$ 1,105
Accounts receivable	80,321	91,194
Inventories	87,946	86,883
Prepaid expenses	7,208	8,502
Deferred income taxes	6,670	3,434
Total current assets	182,737	191,118

Investments and other assets (Note 3)

15,468 8,630

Fixed assets (Note 4)

142,301 194,511

Goodwill, net of accumulated amortization (Note 4)

148,962 152,976

\$ 489,468 \$ 547,235

LIABILITIES

Current liabilities

Bank loans, secured	\$ 18,379	\$ 25,195
Accounts payable and accrued liabilities	70,581	80,715
Current portion of long-term debt (Note 5)	10,289	19,452
Total current liabilities	99,249	125,362

Long-term debt (Note 5)

140,203 206,148

Deferred revenue (Note 2)

35,894 –

Other long-term liabilities (Note 6)

8,075 12,973

Deferred income taxes

3,881 13,626

Total liabilities

287,302 358,109

SHAREHOLDERS' EQUITY

Share capital (Note 7)

Common shares	155,613	155,613
Preferred shares	1,570	1,570
	157,183	157,183

Retained earnings

35,335 18,766

192,518 175,949

Foreign exchange adjustment

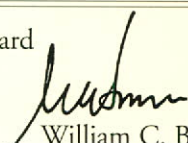
9,648 13,177

Total shareholders' equity

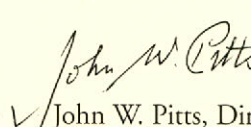
202,166 189,126

\$ 489,468 \$ 547,235

Approved by the Board



William C. Brown, Director



John W. Pitts, Director

Contingent liabilities – Note 11
Environmental obligation – Note 2(b)

BCSugar

STATEMENTS OF CHANGES IN FINANCIAL POSITION

BC Sugar Refinery, Limited and Subsidiary Companies, Years ended September 30

(In Thousands of Dollars)

	1994	1993
CASH PROVIDED BY (USED FOR)		
Operations		
Funds provided from continuing operations (below)	\$ 36,970	\$ 30,053
Changes in non-cash working capital of continuing operations	(11,930)	(2,756)
Cash from continuing operations	25,040	27,297
Cash from discontinued operations	9,792	8,264
Cash from operations	34,832	35,561
Cash dividends paid	(9,967)	(9,567)
	24,865	25,994
Financing		
Decrease in long-term debt	(77,314)	(70,948)
Increase in long-term debt	2,210	35,000
Issue of common shares	—	19,250
Share issue costs	—	(377)
	(75,104)	(17,075)
Investments		
Proceeds from sale of Kalama Chemical, Inc., net of disposition costs	78,223	—
Advances to Kalama Trading Partnership	(2,212)	—
Additions to fixed assets	(8,795)	(12,030)
Other	(5,354)	3,861
	61,862	(8,169)
Increase in cash	11,623	750
Cash of Kalama at date of disposal	(5,320)	—
Net current bank loans, beginning of year	24,090	24,840
Net current bank loans, end of year	\$ 17,787	\$ 24,090

"Net current bank loans" is defined as current bank loans less cash.

FUNDS PROVIDED FROM CONTINUING OPERATIONS

	1994	1993
Net earnings	\$ 26,536	\$ 15,023
Deferred income taxes	(1,812)	(1,230)
Depreciation and amortization	16,120	16,210
Deferred post-retirement benefits	(3,860)	—
Pension	(287)	(293)
Other	273	343
	10,434	15,030
Funds provided from continuing operations	\$ 36,970	\$ 30,053

NOTES TO FINANCIAL STATEMENTS

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1994 and 1993

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of presentation*

The consolidated financial statements include the accounts of the wholly-owned subsidiary companies, The British Columbia Sugar Refining Company, Limited, Lantic Sugar Limited ("Lantic Sugar"), Refined Sugars, Inc. ("RSI"), a wholly-owned subsidiary of Lantic Sugar, and Chatterton Petrochemical Corporation ("Chatterton") and the accounts of Kalama Chemical, Inc. ("Kalama") (collectively with Chatterton referred to as "Specialty Chemicals") up to the date of disposal on May 26, 1994.

The investment in Specialty Chemicals was accounted for as a discontinued operation up to the date of disposition of Kalama on May 26, 1994 (Note 2). In accordance with recommendations of the Canadian Institute of Chartered Accountants, the consolidated balance sheet as at September 30, 1993 includes the balance sheets of Specialty Chemicals. The net income of Specialty Chemicals after March 31, 1991, the date of the formal plan of disposal, was deferred and therefore, was not recorded in the statement of earnings.

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

(b) *Inventories*

Cane sugar inventory is valued at the lower of cost, as determined on the first-in, first-out basis, and market value. The British Columbia Sugar Refining Company, Limited values a normal 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 net realizable value and average cost or cost determined on the first-in, first-out basis.

(c) *Futures transactions*

The Company, in the normal course of business, enters into commodities futures contracts and options 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 deferred and included in inventories. Any gain or loss on unhedged commitments is recognized currently.

(d) *Fixed assets and goodwill*

Fixed assets are stated at cost. Depreciation is provided over the estimated useful lives of the assets. Assets are depreciated by The British Columbia Sugar Refining Company, Limited on the diminishing balance basis and by Lantic Sugar, RSI and Specialty Chemicals on the straight-line basis as follows:

Assets	Rate (percent)
Buildings and improvements	2 – 25
Plant and equipment	5 – 30
Furniture and fixtures	20 – 30

Goodwill is amortized on a straight-line basis at 2.5 percent per annum. Amortization for the year amounts to \$4,014,000 (1993 – \$4,014,000).

(e) *Income taxes*

Deferred income taxes are provided on timing differences which result primarily from claiming capital cost allowances in excess of depreciation and from the differences between the Company's basis of valuing its sugar inventories and that permitted for income tax purposes.

1. SIGNIFICANT ACCOUNTING POLICIES *continued*

(f) *Foreign currency translation*

The operations of RSI and Kalama until the date of disposition, both foreign operations, are considered self-sustaining. Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date (1994 – 1.3465; 1993 – 1.3375). Statement of earnings items are translated at average exchange rates (1994 – 1.3588; 1993 – 1.2767). Gains and losses on translation of these foreign operations are included in the foreign exchange adjustment component of Shareholders' Equity.

The temporal method is used to translate the transactions and balances of the Company that are denominated in foreign currencies. Under this method, monetary assets and liabilities, and non-monetary items carried at market values, are translated at exchange rates in effect at the balance sheet date. Other non-monetary items are translated at their historical exchange rates. Statement of earnings items are translated at average exchange rates. Exchange gains or losses are recognized currently in earnings.

(g) *Pension expense and obligation*

Assets of 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.

2. INVESTMENT IN SPECIALTY CHEMICALS AND DEFERRED REVENUE

(a) *Disposition of Specialty Chemicals*

On May 26, 1994, the Company disposed of its investment in Kalama. Because of uncertainties regarding the eventual resolution of related environmental liabilities and potential third party recoveries, the amount of the sale proceeds, less the carrying value of the investment adjusted for disposal costs and assets retained, has been recorded as deferred revenue until such time as the costs of environmental obligations are determined.

Deferred revenue as at September 30, 1994 is determined as follows:

(In Thousands of Dollars)

Proceeds from disposition	\$ 82,099
Less: Costs of disposal	(3,876)
Net proceeds	78,223
Less: Carrying value of investment in Specialty Chemicals	(57,135)
Add:	
Carrying value of net assets held by Chatterton	5,724
Kalama assets retained at date of disposal	1,982
Income tax benefits from Chatterton's losses	7,100
	(42,329)
Deferred revenue	\$ 35,894

Expenditures in connection with Specialty Chemicals, after the date of disposal, are charged to deferred revenue as incurred.

NOTES TO FINANCIAL STATEMENTS

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1994 and 1993

2. INVESTMENT IN SPECIALTY CHEMICALS AND DEFERRED REVENUE *continued*

In addition to the deferred revenue amount, Kalama established a Trust under the Kalama sale agreement specifically for the remediation of historical environmental obligations. Under the terms of the Trust Agreement, Kalama is required to pay any recoveries received from former owners, insurance carriers or other third parties into the Trust. As at September 30, 1994, the Trust held cash of U.S. \$12 million.

(b) Environmental obligation

Under the terms of the Kalama sale agreement, obligations relating to Kalama's historical environmental activities will be discharged by Kalama so 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 buyer of the shares of Kalama against these obligations.

Such obligations include specific environmental site investigation and cleanup activities at the Kalama and Garfield sites, a former manufacturing location and several Superfund sites.

For some of the environmental liabilities associated with Kalama's operations, the costs of remediation, which may be significant, cannot be specifically determined at this time. As a result, the overall environmental liabilities cannot be determined at this time.

Kalama has entered into an agreement with a former owner of one of its facilities whereby the former owner has accepted responsibility for a significant portion of the remediation costs of that facility. Kalama has received settlements as a result of initiating legal actions against its former insurers and hopes to obtain a settlement with the one remaining insurer in the near future.

The maximum exposure to the Company under the Kalama sale agreement, relating to Kalama's historical environmental issues, is U.S. \$44 million. Management, after consultation with environmental experts and after consideration of the assets held in the Trust (Note 2(a)), believes that the eventual costs of discharging these obligations will be less than this amount.

(c) Summarized financial information of Specialty Chemicals

(In Thousands of Dollars)

	1994	1993
Assets		
Current assets	\$ —	\$ 30,542
Investments	4,194	1,817
Fixed assets	5,872	34,713
Liabilities		
Current liabilities	\$ —	\$ 30,259
Long-term debt and liabilities	—	1,345
Deferred income taxes	—	3,463

The remaining fixed asset as at September 30, 1994 is the property located in Delta, British Columbia, held by Chatterton. The property is recorded at the lower of cost and its estimated realizable value.

The remaining investment as at September 30, 1994, is represented by advances to Kalama Trading Partnership, the sole asset retained by the Company on the sale of Kalama. The Company has given termination notice under the partnership agreement and anticipates realization of the investment amount of \$4,194,000 in 1995.

2. INVESTMENT IN SPECIALTY CHEMICALS AND DEFERRED REVENUE *continued*

Geographic information for Specialty Chemicals for 1993 is summarized below. The 1994 information has not been presented because of the disposal of Kalama during the year.

For the year ended September 30, 1993

<i>(In Thousands of Dollars)</i>	Canada	United States	Consolidated
Revenues*	\$ —	\$ 97,574	\$ 97,574
Operating income (loss)*	\$ (1,160)	\$ 11,264	\$ 10,104
Identifiable assets and investments	\$ 7,677	\$ 64,339	\$ 72,016
Depreciation and amortization*	\$ 305	\$ 3,437	\$ 3,742
Purchase of fixed assets	\$ —	\$ 4,232	\$ 4,232

* These amounts are not included in the consolidated financial statements as explained in Note 1(a).

3. INVESTMENTS AND OTHER ASSETS

<i>(In Thousands of Dollars)</i>	1994	1993
Long-term receivable <i>(Note 8(a))</i>	\$ 4,544	\$ —
Kalama Trading Partnership advances <i>(Note 2(c))</i>	4,194	—
Deferred pension costs	4,130	4,036
Real estate development properties	2,183	2,183
Other	417	2,411
	\$ 15,468	\$ 8,630

Deferred pension costs represent the cumulative difference between the provision for pension cost and amounts funded at the balance sheet date.

4. FIXED ASSETS AND GOODWILL

<i>(In Thousands of Dollars)</i>	Cost		Accumulated depreciation and amortization		Net book value	
	1994	1993	1994	1993	1994	1993
Land	\$ 5,534	\$ 6,147	\$ —	\$ —	\$ 5,534	\$ 6,147
Buildings and improvements	38,480	44,021	13,796	15,626	24,684	28,395
Plant and equipment, furniture and fixtures	203,041	283,115	97,739	130,087	105,302	153,028
Leasehold improvements	356	356	48	14	308	342
Capital assets held for resale	6,473	6,685	—	86	6,473	6,599
Total fixed assets	\$ 253,884	\$ 340,324	\$ 111,583	\$ 145,813	\$ 142,301	\$ 194,511
Goodwill	\$ 160,552	\$ 160,552	\$ 11,590	\$ 7,576	\$ 148,962	\$ 152,976

Capital assets held for resale are recorded at the lower of depreciated cost and estimated realizable value. Net book value of Specialty Chemicals fixed assets included in the 1993 figures was \$53,802,000.

NOTES TO FINANCIAL STATEMENTS

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1994 and 1993

5. LONG-TERM DEBT

(In Thousands of Dollars)

	1994	1993
The British Columbia Sugar Refining Company, Limited		
Term loan "B" bearing interest at bank prime plus 0.25% (1993 – 0.5%), maturing March 31, 2001	\$ 57,750	\$ 85,788
Term loan "C" bearing interest at bank prime plus 0.5%, maturing September 30, 1994	–	4,000
Lantic Sugar Limited		
12.50% Series "A" first mortgage bonds	22,031	22,637
12.125% Series "B" first mortgage bonds	20,865	21,897
11.75% Series "C" first mortgage bonds	13,690	14,015
9.55% Series "D" first mortgage bonds	14,587	14,869
9.85% Series "E" first mortgage bonds	19,469	19,831
8.50% Promissory note	–	40,000
Refined Sugars, Inc.		
9.30% and 9.80% Notes payable	1,336	–
Other	764	2,563
	150,492	225,600
Less: Current portion of long-term debt	10,289	19,452
	\$140,203	\$ 206,148

The British Columbia Sugar Refining Company, Limited

The facility under term loan "B" was \$57,750,000 at September 30, 1994, with repayments of \$1,750,000 per quarter.

The Company has entered into an interest 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 the outstanding notional amount. At September 30, 1994 this was \$57,750,000.

The long-term debt is secured by a general security agreement and a floating charge over the assets of The British Columbia Sugar Refining Company, Limited together with a share pledge of all common shares of Lantic Sugar. The Company has agreed to also provide the bank with pledges of the common shares of material subsidiaries of BC Sugar Refinery, Limited together with mortgages over the lands of The British Columbia Sugar Refining Company, Limited.

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.

5. LONG-TERM DEBT *continued*

The interest in certain leases of Lantic Sugar and a Deed of Trust and Mortgage carrying a specific charge on certain capital assets not otherwise pledged by Lantic Sugar 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 distribution to shareholders.

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)

1995	\$ 10,289
1996	10,718
1997	11,144
1998	11,494
1999	11,662

6. OTHER LONG-TERM LIABILITIES

(In Thousands of Dollars)

	1994	1993
Post-retirement benefits other than pensions	\$ 8,075	\$ 11,634
Environmental contingencies	—	1,339
	\$ 8,075	\$ 12,973

The Company's subsidiary, RSI, provides certain health care benefits for substantially all of its retired employees and life insurance benefits for all retired hourly paid employees. These benefits are recognized by the Company as post-retirement benefits as they are earned.

In 1993, through the Company's subsidiary Kalama, a general provision for environmental liabilities was recorded in the accounts.

7. SHARE CAPITAL

	1994	1993
Common shares outstanding at September 30:		
Class A	23,655,554	23,605,410
Class B	1,066,360	1,116,504
	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	78,500

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

The Company issued 2,000,000 Class A common shares in 1993 for cash proceeds of \$19,250,000 pursuant to a public offering.

NOTES TO FINANCIAL STATEMENTS

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1994 and 1993

7. SHARE CAPITAL *continued*

(b) At the Company's February, 1991 annual general meeting, the Company's shareholders confirmed the adoption of the Company's Shareholder Rights Plan.

Under the plan, one share purchase right is issued in respect of each Class A and Class B common share outstanding as at May 24, 1990 and each common share issued thereafter.

Should any person or group, other than investment fund managers under certain circumstances or a bidder making a bid that satisfies the requirement of a "permitted bid" set forth in the plan, acquire or announce an intention to acquire, 20 percent or more of the total of the Company's Class A and Class B common shares, the rights, after a ten-day waiting period, will separate from the shares. The rights will then entitle each holder of common shares (other than the bidder) to acquire Class A common treasury shares of the Company, or, in certain circumstances, common shares of the bidder, at a 50 percent discount from the then prevailing market price.

Any person or group owning more than 5 percent but less than 20 percent of the outstanding common shares as at May 24, 1990 will be grandfathered under the plan so that they may make a permitted bid, provided not more than a further 2 percent of the outstanding shares are acquired, other than through a permitted bid acquisition or other approved acquisition under the plan. Similarly, any person or group owning 20 percent or more of the outstanding common shares as at May 24, 1990 is grandfathered so that the plan will not be activated unless such shareholding is increased by more than 2 percent.

The rights will remain outstanding until May, 2000 unless redeemed earlier by the Board of Directors. The plan is subject to reconfirmation by shareholders every five years.

The requirements of a "permitted bid" include the following:

- the bid must be made for all outstanding shares to all holders thereof;
- the bidder must not own more than 5 percent of the outstanding common shares, unless he did so at the time the plan was adopted;
- the bid must remain outstanding for 90 days; and
- not less than 50 percent of the outstanding shares held by persons other than the bidder or related parties must be tendered to the bid.

(c) The Company has a share option plan for key employees. To date, options have been granted to acquire 290,000 (1993 – 210,000) Class A common shares at prices from \$8.375 to \$17.25 per common share.

The Company has reserved 210,000 Class A common shares for possible future issuance under this plan.

8. NON-RECURRING ITEMS

(In Thousands of Dollars)

	1994	1993
Gain on settlement of energy supply contract	\$ 13,165	\$ –
Gain on changes to post-retirement benefit plan	3,860	–
Restructuring costs	(2,341)	–
	\$ 14,684	\$ –

(a) *Gain on settlement of energy supply contract*

During the year ended September 30, 1994, the Company's subsidiary, RSI, reached a settlement with a third party for the cancellation of an energy co-generation plant construction agreement. The total settlement in favour of RSI was U.S. \$9,500,000 (CDN \$13,165,000) of which U.S. \$5,000,000 was received during the year. The balance of U.S. \$4,500,000 is receivable in equal annual instalments of U.S. \$1,125,000 commencing April 15, 1995, at an interest rate equal to the U.S. Federal funds rate on the date on which payment is received.

8. NON-RECURRING ITEMS *continued**(b) Gain on changes to post-retirement benefit plan*

During the year, the Company's subsidiary, RSI, changed its post-retirement benefits plan, resulting in a gain of \$3,860,000. The gain reflects changes in coverage for certain retired employees and current employees to be covered under the plan.

(c) Restructuring costs

In August 1994, a restructuring plan to improve the working and reporting structure of the Company was undertaken. During the year, the Company incurred expenses of \$941,000 and has accrued a further \$1,400,000 expected to be incurred before the plan is fully implemented.

9. INCOME TAXES

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

	1994	1993
Combined basic Canadian federal and provincial income tax rate	44.3%	43.0%
Manufacturing and processing profits deduction	(6.8)	(5.8)
Lower effective tax rate on income of foreign subsidiary	—	(5.4)
Losses of subsidiary not tax effected	1.2	7.7
Non-taxable adjustments and other	(5.2)	5.7
Effective income tax rate	33.5%	45.2%

(In Thousands of Dollars)

	1994	1993
Actual provision for income taxes		
On earnings before non-recurring items:		
Current	\$ 16,132	\$ 13,637
Deferred (recovery)	(1,812)	(1,230)
	14,320	12,407
On non-recurring items:		
Current (recovery)	(936)	—
	\$ 13,384	\$ 12,407

The Company, through RSI, has U.S. \$9.6 million in losses carryforward, the benefits of which have not been recorded in these consolidated financial statements.

10. PENSION PLANS

The Company maintains defined benefit pension plans for its employees. 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.

The funded status of the plans is as follows:

	As at September 30	
<i>(In Thousands of Dollars)</i>	1994	1993
Present value of accrued benefits	\$ 97,797	\$ 96,024
Pension funds assets	\$103,241	\$ 102,942

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 periods for the plans are currently 14 years to 18 years.

NOTES TO FINANCIAL STATEMENTS

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1994 and 1993

11. CONTINGENT LIABILITIES

(a) In connection with the purchase by Jannock Limited from a former shareholder ("former shareholder") of Lantic Sugar Limited ("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.

(c) The Company, through Chatterton, which ceased operation 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 anticipates that remedial measures will be required at this site; however, investigations are not yet fully completed and the cost of remediation, which may be significant, cannot be specifically determined at this time. Chatterton has held ongoing discussions with the previous owner with respect to participation in the costs of remediation. It is not possible at this time to estimate the Company's eventual recovery.

As a result of Chatterton's ongoing investigations, management believes that the net outcome of environmental liabilities and the recoveries would not have a material effect on the Company's consolidated financial statements.

12. NET EARNINGS PER COMMON SHARE

(a) *Supplemental earning per share information*

Basic earnings per common share:

	1994	1993
Earnings before non-recurring items, net of income taxes	\$ 0.44	\$ 0.63
Non-recurring items, net of income taxes	0.63	—
Net earnings	\$ 1.07	\$ 0.63

(b) *Fully diluted earnings per share*

The issuance of common shares under the Shareholder Rights Plan, as disclosed in Note 7, would have a substantial dilutive effect on 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, through its subsidiaries, The British Columbia Sugar Refining Company, Limited, Lantic Sugar Limited and Refined Sugars, Inc., operates primarily in the sugar industry which includes the refining, packaging and marketing of cane and beet sugar in Canada and the United States.

Geographic information for the Company's sugar operations is summarized as follows:

	Canada		United States		Consolidated	
	1994	1993	1994	1993	1994	1993
Revenues	\$ 496,524	\$ 438,322	\$ 297,784	\$ 267,851	\$ 794,308	\$ 706,173
Operating earnings (loss)	\$ 51,183	\$ 51,350	\$ (3,900)	\$ 1,870	\$ 47,283	\$ 53,220
Interest expense	(21,586)	(18,648)	(461)	(7,142)	(22,047)	(25,790)
Non-recurring items	(2,341)	—	17,025	—	14,684	—
Income taxes	(12,984)	(12,398)	(400)	(9)	(13,384)	(12,407)
Net earnings (loss)	\$ 14,272	\$ 20,304	\$ 12,264	\$ (5,281)	\$ 26,536	\$ 15,023
Identifiable assets	\$ 189,167	\$ 168,315	\$ 135,871	\$ 132,969	\$ 325,038	\$ 301,284
Investment in						
Specialty Chemicals	—	55,135	—	—	—	55,135
Other investments	10,739	2,778	4,729	—	15,468	6,814
Goodwill	148,962	152,976	—	—	148,962	152,976
	\$ 348,868	\$ 379,204	\$ 140,600	\$ 132,969	\$ 489,468	\$ 516,209
Depreciation and amortization	\$ 10,401	\$ 10,715	\$ 5,719	\$ 5,495	\$ 16,120	\$ 16,210
Purchase of fixed assets	\$ 3,869	\$ 5,615	\$ 3,737	\$ 2,183	\$ 7,606	\$ 7,798

Reconciliation of segmented information for the Company's sugar operations summarized above and segmented information for Specialty Chemicals as disclosed in Note 2 for 1993 is presented below. The 1994 information is not presented because of the disposal of Kalama during the year.

	Sugar Operations	Specialty Chemicals	Consolidation Adjustments	Consolidated
Identifiable assets	\$ 301,284	\$ 70,200	\$ 14,145	\$ 385,629
Investment in Specialty Chemicals	55,135	—	(55,135)	—
Other investments	6,814	1,816	—	8,630
Goodwill	152,976	—	—	152,976
	\$ 516,209	\$ 72,016	\$ (40,990)	\$ 547,235
Depreciation and amortization	\$ 16,210	\$ 3,742	\$ (3,742)	\$ 16,210
Purchase of fixed assets	\$ 7,798	\$ 4,232	\$ —	\$ 12,030

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, 1994 and 1993 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurances 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, 1994 and 1993 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.



Vancouver, Canada

November 10, 1994

KPMG PEAT MARWICK THORNE

Chartered Accountants

BOARD OF DIRECTORS

Directors

J.C. Anderson*

*Chairman and Chief Executive Officer
of Anderson Exploration Ltd.*

R. Stuart Angus♦

*Partner,
Smith, Lyons, Torrance, Stevenson & Mayer*

William C. Brown

*President and Chief Executive Officer
of the Company*

Hon. Pat Carney, P.C.

Senate of Canada

Peter A. Cherniavsky*

Chairman of the Company

** Member of Compensation Committee*

Leo E. Labrosse

Corporate Director

John W. Pitts♦

*President and Chief Executive Officer
of MacDonald Dettwiler and Associates Ltd.*

F. Cameron Wilkinson**

Corporate Director

♦ Member of Audit Committee

CORPORATE OFFICERS

Peter A. Cherniavsky

Chairman

William C. Brown

President and Chief Executive Officer

André O. Bergeron

Vice President

Claudio F. Bussandri

Vice President

David M.S. Elliott

Vice President

Gregory J. Hoskins

Vice President

James W. Hudson

*Vice President Finance,
Secretary and Chief Financial Officer*

Ian D. Maitland

Controller and Assistant Secretary

Roy E. Spires

Treasurer and Assistant Secretary

OPERATING EXECUTIVE

Western Operations

***The British Columbia Sugar
Refining Company, Limited***

*123 Rogers Street
Vancouver, B.C. V6A 3N2
(604) 253-1131*

D.M.S. Elliott

*Executive Vice President
and Chief Operating Officer*

D.N. Hurl

Vice President, Sales and Marketing

B.L. Karren

Vice President, Technical Operations

Eastern Operations

Lantic Sugar Limited

*1 Westmount Square
Westmount, Quebec H3Z 2P9
(514) 939-3939*

C. F. Bussandri

President and Chief Operating Officer

A. O. Bergeron

Executive Vice President and Secretary

R. Beauchamp

Vice President, Sales and Marketing

C. R. Brown

Vice President, Quality Assurance

J. Dussault

Vice President, Human Resources

J.J. Hughes

Vice President, Purchasing and Raw Sugar

D. L. Lafrance

Vice President, Finance

U. S. Operations

Refined Sugars, Inc.

*One Federal Street
Yonkers, New York 10702
(914) 963-2400*

G.J. Hoskins

President and Chief Operating Officer

D.W. Brainard

Vice President, Human Resources

V.J. Cala

Vice President, Consumer Products

A.J. Perrone

Vice President, Sales and Marketing

J. F. Preston

Vice President, Purchasing and Raw Sugar

PRODUCTION & DISTRIBUTION FACILITIES

Vancouver Refinery

D.A. Ryan

Refinery Operations Manager

Taber Factory

D.J. Emek

General Manager

Winnipeg Factory

J.G. Zednai

General Manager

Saint John Refinery

J.B. Wheatley

*Vice President, Production and Refinery
Manager*

Montreal Refinery

J. Gareau

Refinery Manager

Toronto Distribution Centre

A. Zabinsky

Manager

Yonkers Refinery

R.L. Knecht

Vice President, Production



NOTHING EQUALS SUGAR.