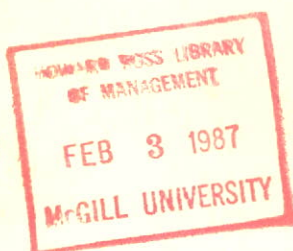
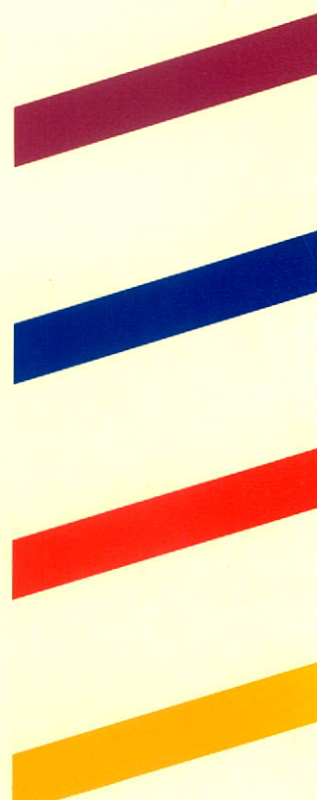


BC Sugar^c

Annual Report
1986



Financial Highlights

(000's omitted, except per share amounts)

Years Ended September 30	1986	1985	1984
Revenues	\$137,769	\$132,910	\$145,407
Earnings before extraordinary items	\$ 4,290	\$ 8,143	\$ 6,896
Extraordinary items	\$ (40,934)	\$ (930)	\$ 1,435
Net earnings (loss)	\$ (36,644)	\$ 7,213	\$ 8,331
Funds provided from sugar operations	\$ 14,926	\$ 14,772	\$ 13,666
Dividends	\$ 7,422	\$ 7,411	\$ 6,499
Average shares outstanding	6,129	6,120	5,441

Per Common Share

Earnings before extraordinary items	\$.69	\$ 1.32	\$ 1.26
Extraordinary items	(6.68)	(.15)	.26
Net earnings (loss)	\$ (5.99)	\$ 1.17	\$ 1.52
Funds provided from sugar operations	\$ 2.44	\$ 2.41	\$ 2.51
Dividends	\$ 1.20	\$ 1.20	\$ 1.20

To BC Sugar Shareholders

In 1986, a number of corporate developments strengthened BC Sugar and placed the Company in a position to realize significantly improved earnings in 1987 and beyond.

As a result of the Federal Government's support program for sugar beet growers announced in April, 1986, the Company's beet sugar factory at Taber, Alberta resumed operations after a one-year shutdown. The resumption of operations at the Taber factory restores BC Sugar's historic production ratio of approximately 50% cane sugar and 50% beet sugar. The revival of the Alberta beet sugar industry will inject about \$30 million per annum into the economy of southern Alberta.

1986 was an important year in the development of BC Sugar's interest in specialty chemicals. Chatterton Petrochemical Corporation, 80%-owned by BC Sugar, made good progress towards its goal of developing a range of products and reducing its dependence on phenol. From an original product line of phenol and benzoic acid, Chatterton is now producing four additional products—sodium benzoate, potassium benzoate, benzaldehyde and meta-toluic acid. Further new products are expected to be added in 1987.

BC Sugar's interest in specialty chemicals was expanded in December, 1986 through the purchase of 49% of Kalama Chemical, Inc., of Seattle, Washington. Under terms of the purchase, BC Sugar also acquired convertible notes entitling it to acquire a further 5% of Kalama upon conversion of the notes. Senior officers of Kalama own 51% of the currently outstanding shares of Kalama, and BC Sugar and the Kalama officers have entered into an agreement whereby these shares may be sold to BC Sugar over a period of years.

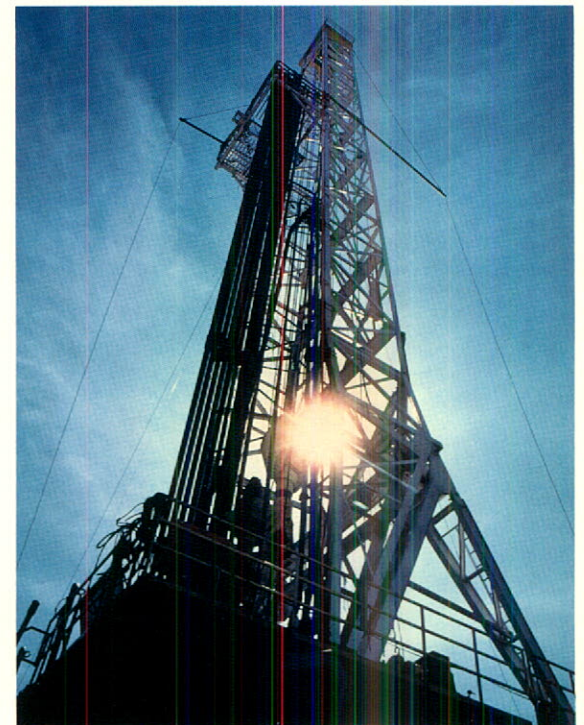
Kalama operates a plant in Washington

State similar to that of Chatterton, and the varied strengths of the two companies are complementary. Kalama has been in business for 16 years and has developed a wide range of products. For the three months ended September 30, 1986, Kalama earned \$970,000 U.S. on revenues of \$10.8 million.

The decline in the world oil price in 1986 brought about a slowdown in drilling activity in Alberta. However, Anderson Exploration Ltd., 38%-owned by BC Sugar, is pursuing a number of promising prospects during this period of reduced exploration costs. Anderson is endeavouring to increase reserves in readiness for the time of increased demand.

1986 Earnings. Net earnings in 1986 were reduced by an extraordinary item and by two non-recurring charges.

The extraordinary item represented a revaluation of BC Sugar's oil and gas interests. In September, 1986, the Canadian Institute of Chartered Accountants issued new accounting guidelines for the oil and gas industry. The major impact of the new guidelines is the adoption of a "ceiling



test." This is a cost recovery test and is not intended to measure fair market value. Deregulation of natural gas marketing on November 1, 1986 resulted in a \$41 million write-down of BC Sugar's oil and gas interests. This amount is reported as an extraordinary item in the Company's 1986 financial statements.

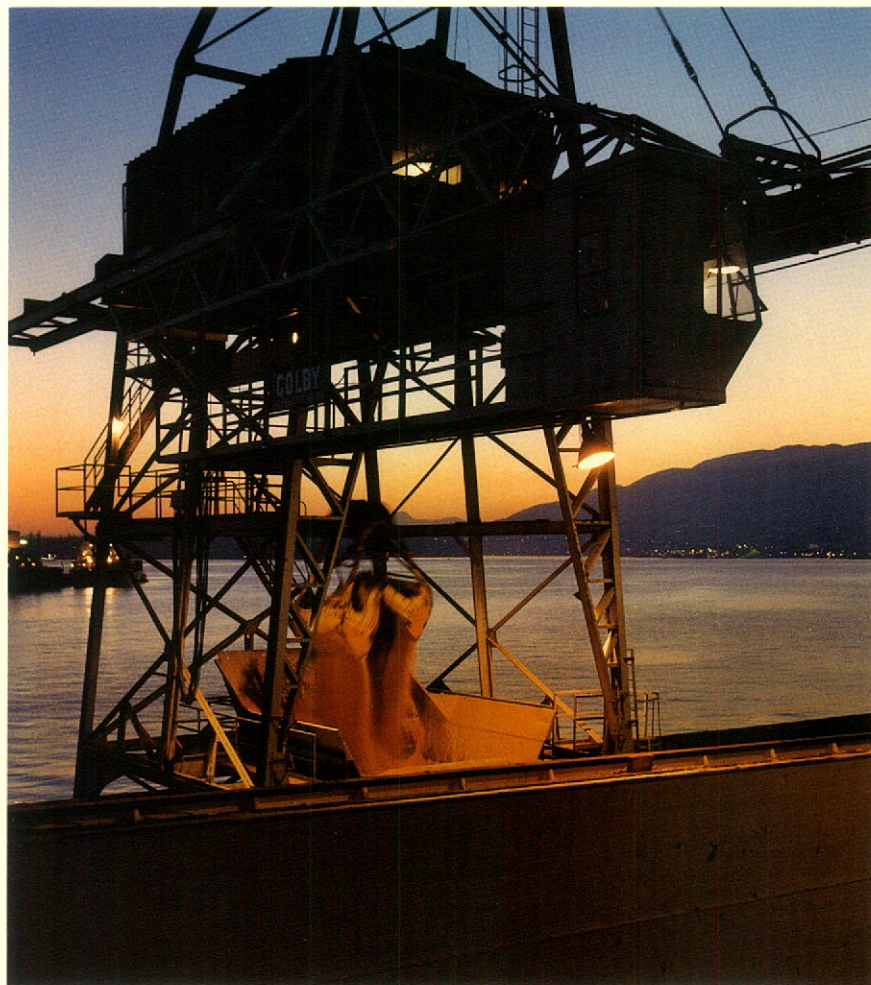
It should be emphasized that this revaluation of BC Sugar's oil and gas interests is a non-cash charge which has no effect on the Company's cash flow or ability to pay dividends.

One of the two non-recurring items which reduced 1986 earnings is related to the decline in world oil prices. Chatterton experienced an estimated \$2 million decline in the value of its feedstock inventory. This inventory loss was fully absorbed in the 1986 financial statements. Also, BC Sugar's real estate development property located south of Calgary was written down by \$1.4 million, a reflection of the depressed economy in that area.

Despite reduced net earnings in 1986, corporate cash flow remained strong. Funds from sugar operations, out of which dividends are paid, amounted to \$14.9 million in 1986, compared to \$14.8 million in 1985.

Outlook. The developments that occurred and the decisions that were made in 1986 will bring about an improved performance for BC Sugar in 1987 and future years. Earnings in 1987 should be considerably better than those reported in 1986.

We are fully committed to improve our returns for the benefit of shareholders. We have the facilities, the financial strength and the experienced employees to do what needs to be done. The Board of Directors extends its thanks to all employees for a job well done. The success of any enterprise depends in no small measure on the resourcefulness of



its employees, and we look forward to the coming year with a great deal of optimism.

Mr. Ian Angus, having reached the mandatory retirement age, will not be standing for re-election as a director in 1987. The Board wishes to thank Mr. Angus for his 40 years of dedicated service as an officer and director of the Company.

On behalf of the Board

Peter A. Chermiawsky

Chairman
BC Sugar

December 17, 1986
Vancouver, B.C.

*Unloading
raw cane
sugar at
BC Sugar's
refinery in
Vancouver.*

*A drilling rig
continues the
quest for new
discoveries.*

Sugar

Raw Sugar prices remained at low levels, in the range of 4¢ to 8¢ U.S. per pound. World sugar production/consumption estimates are now beginning to indicate an overall reduction in stocks, the chief requirement for improved prices. Periodic talks are held between major exporters relative to a new International Sugar Agreement, but it is unlikely that an effective agreement will be in place for some time to come.

In the first six months of the year, there was uncertainty as to whether sugar beets would be planted in Alberta and Manitoba for processing in the fall of 1986. For nearly two years, the Federal Government had been trying to determine if the beet sugar industry should be maintained and, if so, what form of support should be provided for the growers. There were various options for the government to take, most of which would have been unsatisfactory for industrial users and consumers, as well as for your Company. The Company maintained that income support for growers, rather than price support, would be best for all concerned. In the final analysis, this is what transpired.

A key requirement of any grower income support plan is that it be in place on a long-term basis. Doubt as to whether a crop of beets will be planted from year to year is untenable for both the Company and growers. The Federal plan does address this problem, and its proposal is to institute a program extending over several years between the senior levels of government and the growers. The Company, though not a signatory to the plan, is of course an important and concerned party.

Despite the Federal Government's beet sugar policy announcement of April, 1986, the Minister of State for Finance issued a directive in late June to the Tariff Board to enquire into the current state and future economic prospects of the Canadian natural sweetener industry. The Board is not to make specific policy recommendations but is to examine possible policy alternatives that might be considered and is to report to government by April, 1987. Three days of public hearings were held by the Tariff Board during the first week of December.

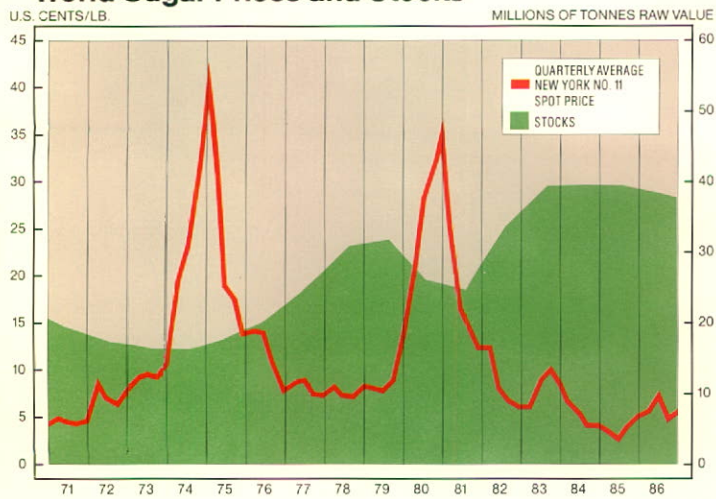
The Board received over one hundred submissions from food industry associations, manufacturers, small businesses, private individuals and other interested parties. The overwhelming consensus of participants was that the Canadian sugar beet industry should remain as part of the Canadian food chain, but not by means of a sugar pricing system that would artificially raise costs to industrial users and consumers. There was general support for assistance to beet growers during periods of depressed sugar prices, through an improved application of the Agricultural Stabilization Act. Canada's current sweetener policy of allowing access for raw sugar at world prices has proven sound and beneficial to Canadians. Ready access to reliable supplies of raw



*An aerial view
of the Taber beet
sugar factory.*



World Sugar Prices and Stocks



Sugar beets at harvest time.

Sugar beets are piled outside the factory awaiting processing.

Sugar beets are sliced as the initial step in the sugar extraction process.



Quality control is an important aspect of factory operations.

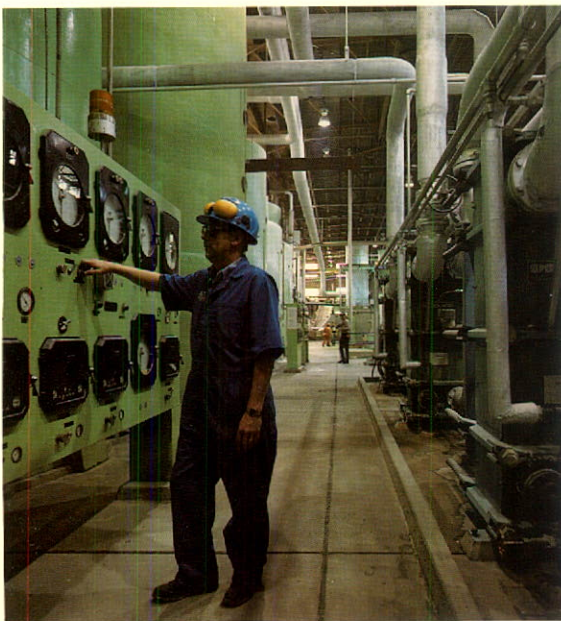
sugar at world prices has enabled the industry to provide sugar to Canadian consumers at prices which are among the lowest in the western world. It is the position of your Company, and that of the Canadian Sugar Institute, that the present Canadian sugar policy has worked well and requires little fundamental change. Proposals such as the establishment of an artificially high floor price for imported raw cane sugar would prove detrimental to Canadians as a whole and serve only to satisfy the concerns of a small number of special interest groups. The U.S. experience of interference in the domestic sugar market provides a lesson which should be an adequate incentive for Canada to avoid any similar form of governmental intervention.

For three years, Canada has been a dumping ground for refined sugar, primarily from the United States. In order to initiate an anti-dumping action, Revenue Canada requires that a properly documented complaint be filed outlining evidence of dumping and of consequent material injury through lost sales and declines in profitability. Dumping has affected the operations of both the cane and beet sugar divisions. Additionally, dumping will increase the Federal Government's support payments to growers in Alberta and Manitoba.

Last year's Annual Report referred to adverse publicity which has implicated sugar in all sorts of health problems. In fact, only the incidence of dental caries is somewhat related to the consumption of sugar or any other fermentable carbohydrate. The U.S. Food and Drug Administration, in a recently released report, confirmed that sugar does not contribute to the development of diabetes, heart disease, cancer, hypertension or hyperactivity, and consumption at present-day levels does not constitute a general health hazard.

For the past year, the Canadian Sugar Institute has had a relatively active print campaign designed to correct many of the myths about sugar. The fourth such advertisement appears at the back of this Report. It is of interest to note that similar thrusts to tell the truth concerning sugar are being conducted in Europe, the United States and Australia.

The issue of Free Trade with the United States is a current topic of discussion to which the Canadian sugar industry is responding. The sugar industry supports the Canadian government in its broad trade initiative. However, the structural difference in sugar policies between the two countries is so divergent that a workable policy of Free Trade with respect to sugar must await the time when the two policies become more closely aligned. Canada's historical and present policy is to purchase its requirements from the world market at prevailing prices. Under the Farm Bill, the U.S.A. sets a market stabilization price, presently triple the world price, and endeavours to maintain this level by an import quota system. Ninety percent of Canada's sweetener requirements are imported, whereas the United States produces 90% of its total sweetener requirements.



Operations of the sugar beet factories are monitored 'round the clock.



Check-weighing for package uniformity.

Company sugar beet factories at Taber and Winnipeg are among the most efficient in North America.

Anderson Exploration Ltd.

The 1986 fiscal year saw dramatic changes in the markets for oil and gas. While Anderson's production volumes and revenues were at near-record levels through the first quarter of the year, the collapse of world oil prices in January of 1986 indirectly precipitated a significant drop in the demand for Canadian natural gas, Anderson's major product. Anderson was forced to curtail its activities over the balance of the year to compensate for the attendant decline in revenues.

but only about 67 MMCFD in 1986. The market-sensitive pricing system for exported Canadian gas instituted in November, 1984 held sales volumes up throughout fiscal 1985 and four months into the 1986 fiscal year. In the final two-thirds of 1986, spot sales into California from very low-priced U.S. competition substantially eroded Dunvegan volumes. As a result of decreased gas production from Dunvegan, production of natural gas liquids declined 32% from 1985. Oil production volumes were down 7% from 1985 levels due primarily to shutting in of some heavy oil wells which are uneconomic to operate at present prices.

Drilling Activity. Anderson participated in fifty working interest wells in 1986. The Company's average working interest was 44.2%, with forty of these wells being operated by Anderson. A total of twelve royalty interest wells were drilled on Anderson lands by others at no cost to the Company. There was no drilling in progress at the end of the year. The following table summarizes the results of drilling activities with 1985 results for comparison:

	1986			1985		
	Working Interest	Royalty Interest	Total	Working Interest	Royalty Interest	Total
Oil	11	6	17	20	7	27
Gas	16	1	17	15	1	16
Dry	23	5	28	19	2	21
Total	50	12	62	54	10	64

Deep Cut Plant Construction. In May, 1986, Anderson signed a contract for construction of a \$15.7 million Deep Cut Plant expansion project. The Deep Cut Plant is designed to recover propane-plus liquids at Dunvegan. Work in the field began in July, with plant construction started in early September. The project is on schedule, with start-up planned for May, 1987. Anderson's interest in the project is 47.5%.

HIGHLIGHTS	1986	1985
Financial (in Thousands of Dollars)		
Cash Flow	\$ 17,447	\$ 29,401
Net (loss) before extraordinary item and write-down of oil and gas assets	(1,433)	(3,148)
Long-term debt	89,914	92,886
Production		
Natural gas (millions of cubic feet per day)	51.7	68.4
Liquids (barrels per day)		
—oil	898	966
—natural gas liquids	296	438
Reserves (proven plus probable)		
Natural gas (billions of cubic feet)	621.4	638.2
Oil and natural gas liquids (thousands of barrels)	17,094	16,159
Number of employees	69	66

Production. Production volumes in all categories were down substantially in 1986 compared to 1985. Daily average production volumes, before deduction of royalties, were 51.7 million cubic feet per day ("MMCFD") of natural gas and 1,194 barrels per day ("BPD") of oil and natural gas liquids. This compares to 68.4 MMCFD and 1,404 BPD respectively for 1985.

Natural gas production decreased 24% from 1985, with the major decrease occurring at Dunvegan where Anderson's share of sales was down by 36%, or 18.1 MMCFD. Sales from other properties were up 8% in 1986. Total field production at Dunvegan averaged 105 MMCFD in 1985,

Reserves. Remaining working interest proven plus probable reserves at year-end were 621.4 billion cubic feet of natural gas and 17.1 million barrels of oil and natural gas liquids. The 1986 drilling program delineated additional gas reserves in the Bellis and North Hines Creek fields. The gas reserve additions were not sufficient to offset production volumes and a reduction because of shrinkage for Dunvegan Deep Cut liquids. The major factor for liquid reserve increase is the full recognition of the Dunvegan Deep Cut liquids, as the plant is under construction.

Financial. The financial statements of Anderson are set out in Note 2 to BC Sugar's financial statements.

In September of 1986, the Canadian Institute of Chartered Accountants issued an accounting guideline for full cost accounting in the oil and gas industry. The evaluation of the carrying costs of oil and gas properties recommended in the guideline is a cost recovery test based on current product prices with no price escalation. The test is not intended to result in an estimate of fair market value.

At September 30, 1986 prices, Anderson was able to show future revenues that were more than sufficient to recover the carrying value of its properties. However, with deregulation of natural gas marketing on November 1, 1986, it was accepted that significant decreases in natural gas

prices were imminent. Accordingly, Anderson performed a ceiling test using the Company's best estimates of current prices. The result was a calculated reduction of \$41 million in the carrying amount of the Company's oil and gas assets. This non-cash item results in a \$41 million charge to Anderson's income statement in the 1986 fiscal year.

Outlook. In response to lower prices, significant changes were made by governments to the fiscal regime in which the oil and gas industry operates. Effective October 1, 1986, the punitive Petroleum and Gas Revenue Tax has been eliminated by the Federal government. Provincially, royalties have been reduced in Alberta, the Alberta Royalty Tax Credit has been enriched and extended for a year and more significant royalty holidays for new oil discoveries have been implemented.

Although the 1986 fiscal year brought more than a fair share of bad news, the Company views the future with optimism and enthusiasm. The industry is undergoing some structural changes which, if not permanent, will at least be long lasting. The current situation is one of opportunity. It is a fact that North America in particular and, for that matter, the entire world, runs on fossil fuels. Conventional oil supply on a global basis will remain plentiful for many years to come, but the preponderance of supply is located in low consumption nations. As reserves and deliverability dwindle in consuming nations, prices will rise. Although current natural gas deliverability in North America is abundant relative to demand, reserves are not. For the technically and financially competent and innovative, the oil and gas industry will provide opportunities for many years. Rewards may be slower in coming, but they will most certainly come.



Chatterton Petrochemical Corporation

In 1986, Chatterton introduced four new products, an accomplishment of which employees can be justly proud.

The first phase of the alkali benzoate plant was installed in late 1985, and shipments of sodium benzoate and potassium benzoate began in the spring of 1986. These products are widely used as preservatives in foods and beverages.

Sales of benzaldehyde commenced in July, 1986. Benzaldehyde is used as a flavouring agent and as a starting material for organic chemical synthesis.

In mid-year, Chatterton began batch production of meta-toluic acid which is a major raw material in the production of insect repellent. Chatterton is now the primary North American producer of meta-toluic acid.

Ortho-cresol, meta-cresol and para-cresol and the corresponding tolualdehydes will be added to the product line in the spring of 1987.

Chatterton's new products are targeted primarily at international markets. Products are being shipped to Europe, Japan, Korea, Taiwan, Australia and New Zealand, as well as to the United States.

To provide assistance for the development of new products, Chatterton was awarded a \$2.3 million low-interest loan under the Canada-British Columbia Agreement on Industrial Development.

In addition to new product development, Chatterton has been working towards greater plant efficiency. Energy efficiency has been markedly improved, and a heat recovery system for the steam boilers is under construction which will result in a further reduction in natural gas consumption.

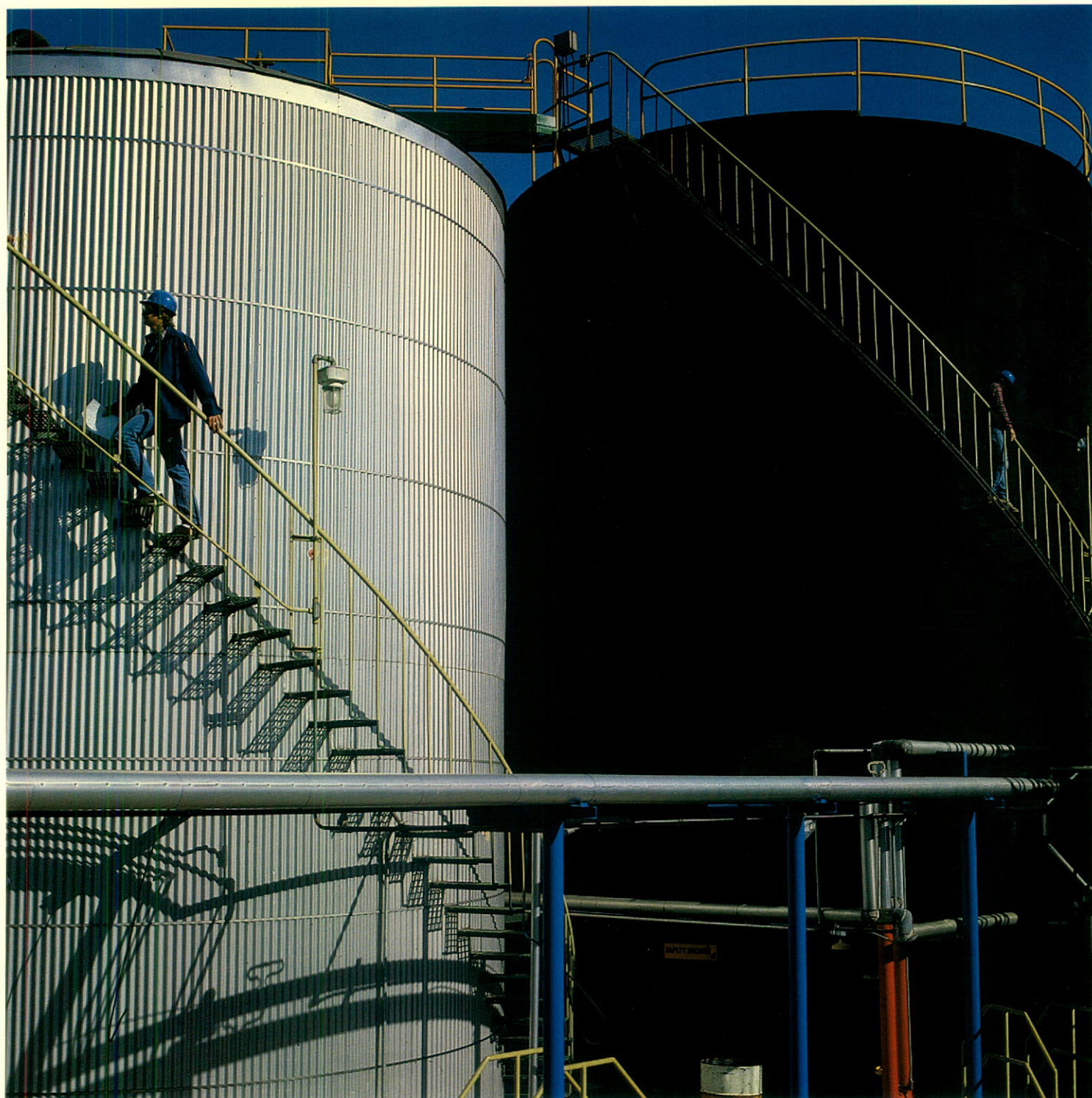
During fiscal 1986, Chatterton's financial results were adversely affected by external factors. Toluene, the basic feedstock used at Chatterton's plant, is a petroleum product. The sharp fall in the world oil price brought about a decline in the value of the Company's feedstock inventory. Also, a lengthy strike in the British Columbia forest industry reduced the demand for phenol.

These and other factors have reinforced management's desire to develop a diversified product line as quickly as resources will permit.



Chatterton products await shipment from the warehouse.





Operations are monitored in the control room.

Large tanks provide ample product storage.

Unloading toluene at Chatterton's Fraser River deep-water terminal.

A skilled workforce is necessary to maintain a high level of quality.



Kalama Chemical, Inc.

Kalama Chemical, Inc. is a United States producer of fine and specialty chemicals. Its head office is in Seattle, Washington.

Kalama was formed in 1971 to acquire Dow Chemical's phenol plant located at Kalama, Washington, a few miles south of Longview. The site comprises 155 acres on the east bank of the Columbia River and includes a deep-water dock. The plant was built in 1962 to produce phenol for the plywood adhesives market in the Northwest.

Phenol is a commodity chemical, and its price is significantly influenced by international and domestic supply and demand factors. Most phenol producers in the United States have significantly larger plants than does Kalama, and Kalama's production represents less than 2% of total phenol produced in North America. Because of these factors, Kalama has sought to reduce its dependence on phenol and move more towards the development of other products. Today, phenol represents only one-third of Kalama's total revenues, whereas it represented over 90% of the Company's original business.

The Kalama facility, like the Chatterton plant, manufactures phenol by the toluene oxidation process. All other manufacturers of phenol in North America use a different process utilizing cumene rather than toluene. The toluene process enables Kalama to manufacture a variety of products not possible in the cumene process.

Over the years, new production units have been added to the Kalama facility, and today the plant produces over 80 million pounds of product per year, comprising 10 different fine and specialty chemicals. Some of the more important products include benzoic acid, benzaldehyde, sodium benzoate, benzyl alcohol, nonyl phenol and plasticizers.

In 1982, Kalama acquired the fine

chemical operations of Tenneco Chemicals in Garfield, New Jersey, a few miles west of New York City. This facility contains a plant to manufacture salicylic acid, an intermediate used for the manufacture of pharmaceuticals such as aspirin. The Garfield facility also produces the sodium, potassium and magnesium salts of salicylic acid, as well as Parasept preservatives.

Most of Kalama's products are sold in fine and specialty chemical market segments.

Fine chemicals consist of products with stringent purity requirements. They are often high value-added products, with quality and conformity to rigid specifications the major factors in the buyer's purchase decision. Kalama markets benzoic acid and derivatives, benzaldehyde and derivatives, salicylates and derivatives and Parasepts, all to fine chemical industrial consumers.

Specialty chemicals consist of products which are further defined by functional qualities. They are often unique in their ability to solve a particular problem, yet may represent only a small part of the customer's overall product cost. Kalama markets plasticizers and sodium benzoate to specialty chemical industrial consumers.

Kalama's products are used in a wide variety of industries. Included are preservatives used in food and beverage products and intermediates for cosmetic and pharmaceutical products.

Kalama has sales offices in New England, New York, Chicago, Houston and Seattle. Export sales, primarily to Pacific Rim countries, are handled from Seattle.

The Company currently employs approximately 175 people. About 25 chemists, engineers and technicians are involved in research efforts to improve process efficiency and to develop new derivatives of existing products.



*Kalama's plant on
the Columbia River.*

Five-Year Review

(Dollar amounts in thousands except per share amounts)

FINANCIAL	1986	1985	1984	1983	1982
Revenues	\$137,769	\$132,910	\$145,407	\$158,885	\$160,173
Earnings before extraordinary items	4,290	8,143	6,896	4,584	6,961
Extraordinary items	(40,934)	(930)	1,435	1,881	—
Net earnings (loss)	(36,644)	7,213	8,331	6,465	6,961
Funds provided from sugar operations	14,926	14,772	13,666	15,343	12,812
Dividends	7,422	7,411	6,499	6,426	6,406
Carrying value of investment in Anderson Exploration Ltd.	40,007	82,576	86,258	61,564	66,851
Long-term debt	21,919	20,939	16,839	17,454	25,226
Shareholders' equity	54,336	98,209	98,178	72,980	72,874
Per common share					
Earnings from sugar	\$1.68	\$1.93	\$1.94	\$2.30	\$1.68
Loss from oil and gas	(.31)	(.49)	(.68)	(1.41)	(.33)
Loss from specialty chemicals	(.45)	(.12)	—	—	—
Write-down of real estate development properties	(.23)	—	—	—	—
Earnings before extraordinary items	.69	1.32	1.26	.89	1.35
Extraordinary items	(6.68)	(.15)	.26	.38	—
Net earnings (loss)	(5.99)	1.17	1.52	1.27	1.35
OTHER INFORMATION					
Number of BC Sugar employees	507	501	527	542	556
Average shares outstanding (000's omitted)	6,129	6,120	5,441	5,037	5,053
Degree of Canadian registration of common shares	96%	96%	95%	94%	94%

Statement of Earnings

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

(In Thousands of Dollars)

	1986	1985
Revenues	\$137,769	\$132,910
Costs and expenses		
Cost of sales	100,889	90,704
Selling, general and administrative	17,123	17,361
Depreciation	3,102	2,823
Long-term debt interest	2,457	1,956
Other interest	1,089	1,631
Total costs and expenses	124,660	114,475
	13,109	18,435
Income taxes (Note 6)	5,542	7,280
Earnings before undernoted items	7,567	11,155
Loss from oil and gas (Note 2(a))	(1,871)	(3,012)
Write-down of real estate development properties	(1,406)	—
Earnings before extraordinary items	4,290	8,143
Extraordinary items (Note 7)	(40,934)	(930)
Net earnings (loss)	\$ (36,644)	\$ 7,213
Per Common Share		
Earnings from sugar	\$1.68	\$1.93
Loss from oil and gas	(.31)	(.49)
Loss from specialty chemicals	(.45)	(.12)
Write-down of real estate development properties	(.23)	—
Earnings before extraordinary items	.69	1.32
Extraordinary items	(6.68)	(.15)
Net earnings (loss)	\$ (5.99)	\$ 1.17

Statement of Reinvested Earnings

	1986	1985
Balance, beginning of year	\$ 62,829	\$ 63,027
Net earnings (loss)	(36,644)	7,213
	26,185	70,240
Dividends	7,422	7,411
Balance, end of year	\$ 18,763	\$ 62,829

Balance Sheet

BC Sugar Refinery, Limited and Subsidiary Companies,
September 30

(In Thousands of Dollars)

	1986	1985
ASSETS		
Current Assets		
Accounts receivable	\$ 15,144	\$ 16,427
Inventories	19,145	16,368
Total current assets	34,289	32,795
Investment in Anderson Exploration Ltd. (Note 2)	40,007	82,576
Other Investments (Note 3)	8,785	10,395
Fixed Assets		
Property, plant and equipment	93,573	90,557
Less accumulated depreciation	65,602	62,575
Total fixed assets	27,971	27,982
Total	\$111,052	\$153,748

	1986	1985
LIABILITIES		
Current Liabilities		
Bank loans, secured	\$ 16,290	\$ 9,923
Accounts payable and accrued liabilities	12,844	13,381
Total current liabilities	29,134	23,304
Long-Term Debt (Note 4)	21,919	20,939
Deferred Income Taxes	5,663	9,896
Minority Interest	—	1,400
Total	56,716	55,539
SHAREHOLDERS' EQUITY		
Share Capital (Note 5)		
6,318,826 Common shares (1985—6,309,796 shares)	38,150	37,957
82,000 Preferred shares	1,640	1,640
	39,790	39,597
Earnings Reinvested in the Business	18,763	62,829
	58,553	102,426
Less proportion of shares held by Anderson Exploration Ltd. (Note 2(b))	(4,217)	(4,217)
Total shareholders' equity	54,336	98,209
Total	\$111,052	\$153,748

Subsequent event—Note 9

Approved by the Board
Peter A. Cherniavsky, *Director*.
John W. Pitts, *Director*.

Statement of Changes in Financial Position

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

(In Thousands of Dollars)

	1986	1985
Cash provided from operations (below)	\$ 2,789	\$ 7,238
Cash dividends paid	(7,464)	(7,442)
Other sources of cash		
Increase in long-term debt	2,482	1,525
Repayment of long-term debt	(1,502)	(2,525)
	980	(1,000)
Other uses of cash		
Other investments	(2,022)	(1,677)
Investment in Chatterton Petrochemical Corporation	(650)	(3,000)
Realization of investments	—	621
	(2,672)	(4,056)
Increase in current bank loans	6,367	5,260
Current bank loans at beginning of year	9,923	4,663
Current bank loans at end of year	\$ 16,290	\$ 9,923

CASH PROVIDED FROM OPERATIONS

	1986	1985
Earnings before extraordinary items	\$ 4,290	\$ 8,143
Items not involving cash		
Deferred income tax recovery	(4,233)	(286)
Depreciation	3,102	2,823
Write-down of real estate development properties, before applicable income taxes	2,511	—
Loss from oil and gas	1,871	3,012
Gain on purchase of minority interest in Chatterton Petrochemical Corporation	(1,350)	—
Share of loss from investments	968	368
Minority interest in Chatterton Petrochemical Corporation	600	(604)
Depletion of oil and gas property	152	218
	3,621	5,531
Purchase of fixed assets	(3,091)	(3,053)
Increase in net current assets, excluding current bank loans	(2,031)	(3,383)
	(5,122)	(6,436)
Cash provided from operations	\$ 2,789	\$ 7,238

Notes to Financial Statements

BC Sugar Refinery, Limited and Subsidiary Companies,
September 30, 1986

1. Significant accounting policies

a) Basis of presentation

The consolidated financial statements include the accounts of the 100 percent-owned subsidiary company, The British Columbia Sugar Refining Company, Limited, and the 80 percent-owned subsidiary company, Chatterton Petrochemical Corporation.

The Company's 38.7 percent interest in Anderson Exploration Ltd. ("Anderson") has been accounted for on the equity basis.

b) Inventories

A normal quantity of 35,000 tonnes of cane sugar is valued at \$85 per tonne, which is less than replacement value. Any quantities of cane sugar in excess of this amount and all beet sugar inventories are valued at the lower of average and replacement cost. All other inventories are valued at the lower of average cost and net realizable value.

c) Depletion

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

The Company and Anderson have prospectively adopted the method of accounting for Anderson's oil and gas properties recommended by the Canadian Institute of Chartered Accountants' Guideline "Full Cost Accounting in the Oil and Gas Industry" (see note 7).

d) Fixed assets

Fixed assets are stated at cost. Depreciation is computed on the diminishing balance basis at rates varying from four percent to thirty percent per annum.

e) Income taxes

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

f) Earnings per common share

Earnings per common share are calculated after adjusting for the reciprocal ownership of shares of the Company held by Anderson. Fully diluted earnings per share, which assume the exercise of warrants described in Note 5, do not differ significantly from reported earnings per share.

g) Statement of Changes in Financial Position

The Statement of Changes in Financial Position is presented on a cash flow basis. The comparative statement for 1985, originally presented on a working capital basis, has been reclassified to conform with the current year's presentation.

h) Comparative figures

Comparative figures have been reclassified to conform with the current year's presentation.

Notes to Financial Statements

BC Sugar Refinery, Limited and Subsidiary Companies,
September 30, 1986

2. Anderson Exploration Ltd. ("Anderson")

a) Financial information of Anderson

Years ended September 30

(In Thousands of Dollars)

1986

1985

Statement of earnings

Revenue

Oil and gas (net of royalties)

\$ 42,200

\$ 59,614

Dividends and interest

1,561

820

43,761

60,434

Expenses

Operating

6,763

6,554

Petroleum and gas revenue tax

4,570

9,100

Depletion and depreciation

15,100

19,950

General and administrative

2,221

2,323

Interest

9,341

11,455

37,995

49,382

5,766

11,052

Income taxes

Current

5,950

3,631

Deferred

3,750

12,569

Alberta royalty tax credit

(2,501)

(2,000)

7,199

14,200

Loss before other items

(1,433)

(3,148)

Other items

Write-down of oil and gas properties

(41,000)

—

Loss on disposition of investment

—

(2,333)

(41,000)

(2,333)

Net loss reported by Anderson

\$ (42,433)

\$ (5,481)

BC Sugar's share of Anderson's loss before other items, after elimination of intercompany dividends

\$ (807)

\$ (1,491)

Amortization of excess of BC Sugar's purchase price over underlying net book value

(1,064)

(1,521)

Loss from oil and gas reported by BC Sugar

\$ (1,871)

\$ (3,012)

Changes in financial position

Cash provided by operating activities

\$ 14,505

\$ 36,636

Cash used in investment activities

(13,404)

(16,620)

Cash used in financing activities

(3,000)

(20,000)

(Increase) decrease in current bank indebtedness

(1,899)

16

Current bank indebtedness at beginning of year

(934)

(950)

Current bank indebtedness at end of year

\$ (2,833)

\$ (934)

2. Anderson Exploration Ltd. ("Anderson") (cont'd.)**Condensed balance sheet**

	September 30	
	1986	1985
ASSETS		
Current assets	\$ 6,300	\$ 16,387
Oil and gas properties, plant and equipment (net)	268,780	312,556
Shares of other companies, including 492,000 shares of BC Sugar	11,950	11,863
Other	3,934	—
	\$290,964	\$340,806
LIABILITIES		
Current liabilities	\$ 9,161	\$ 20,291
Deferred revenue	36,776	37,528
Deferred income taxes	49,626	45,876
Long-term debt	89,914	92,886
	185,477	196,581
SHAREHOLDERS' EQUITY	105,487	144,225
	\$290,964	\$340,806

b) To reflect Anderson's ownership of 492,000 shares of BC Sugar, shareholders' equity has been reduced by the Company's share of the cost of the BC Sugar shares held by Anderson.

3. Other investments

	1986	1985
Real estate development properties	\$ 3,396,000	\$ 5,825,000
Oil and gas properties	2,890,000	2,983,000
Other	2,499,000	1,587,000
	\$ 8,785,000	\$10,395,000

4. Long-term debt

	1986	1985
The British Columbia Sugar Refining Company, Limited		
Secured bank loan with interest at bank prime	\$14,314,000	\$14,314,000
Chatterton Petrochemical Corporation		
Secured bank loan with interest at bank prime plus 1%	8,000,000	6,000,000
Notes payable to minority interests with interest at bank prime plus 2%	—	1,100,000
Other	518,000	36,000
	22,832,000	21,450,000
Less current portion included in accounts payable	913,000	511,000
	\$21,919,000	\$20,939,000

Notes to Financial Statements

BC Sugar Refinery, Limited and Subsidiary Companies,
September 30, 1986

5. Share capital	1986	1985
Common shares		
Class A	5,510,765	5,416,866
Class B	808,061	892,930
	6,318,826	6,309,796
Preferred shares, carrying a cumulative dividend entitlement of \$1.00 per share and redeemable at \$20.00 per share	82,000	82,000

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. During the year, 9,030 Class B shares were issued to shareholders who elected to reinvest their dividends. In 1985, 9,162 shares were issued as stock dividends to holders of Class B shares.

Outstanding warrants entitle the holders to purchase 500,000 common shares of the Company on or before May 31, 1988 at a price of \$25.00 per share.

6. Income taxes

The Company's effective income tax rate is comprised as follows:

	1986	1985
Combined basic federal and provincial income tax rate	51.5%	50.8%
Manufacturing and processing profits deduction	(6.0)	(6.0)
Inventory allowance	(1.4)	(2.9)
Other	(1.8)	(2.4)
Effective income tax rate	42.3%	39.5%
Actual provision for income taxes	\$5,542,000	\$7,280,000

7. Extraordinary items	1986	1985
Write-down of BC Sugar's purchase price attributed to Anderson's oil and gas properties	\$(24,584,000)	—
BC Sugar's share of Anderson's write-down of oil and gas properties	(16,350,000)	—
BC Sugar's share of Anderson's loss on disposition of investment	—	\$(930,000)
	\$(40,934,000)	\$(930,000)

8. Segmented information

The Company and its subsidiaries operate essentially in two industry segments, sugar and specialty chemical products. The sugar segment includes the refining, packaging and marketing of cane and beet sugar in western Canada. The specialty chemical products segment consists of the development, production and marketing of specialty chemical products.

8. Segmented information (cont'd)

Industry segment information is as follows:

	Sugar		Specialty chemical products		Consolidated	
	1986	1985	1986	1985	1986	1985
Revenues	\$127,904	\$128,368	\$ 9,865	\$ 4,542	\$137,769	\$132,910
Segment operating earnings (loss)	\$ 21,509	\$ 22,494	\$ (4,854)	\$ (472)	\$ 16,655	\$ 22,022
Interest expense					3,546	3,587
Income taxes					5,542	7,280
Loss from oil and gas					1,871	3,012
Write-down of real estate development properties					1,406	—
Extraordinary items					40,934	930
					53,299	14,809
Net earnings (loss)					\$ (36,644)	\$ 7,213
Identifiable assets	\$ 44,205	\$ 46,442	\$18,055	\$14,335	\$ 62,260	\$ 60,777
Investments					48,792	92,971
					\$111,052	\$153,748
Depreciation	\$ 2,356	\$ 2,582	\$ 746	\$ 241	\$ 3,102	\$ 2,823
Purchase of fixed assets	\$ 1,306	\$ 877	\$ 1,785	\$ 2,176	\$ 3,091	\$ 3,053

All of the segments' employees and assets are located in Canada and revenues generated from export sales are not significant.

9. Subsequent event

In November, 1986, the Company made an offer to acquire a majority interest in Kalama Chemical, Inc., a privately-held company based in Seattle, Washington. Kalama is engaged in the manufacture of fine and specialty chemicals. The cost to BC Sugar would approximate U.S. \$8 million.

Auditors' Report

To the Shareholders of BC Sugar Refinery, Limited

We have examined the consolidated balance sheet of BC Sugar Refinery, Limited as at September 30, 1986 and the related consolidated statements of earnings, reinvested earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at September 30, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
November 19, 1986

THORNE ERNST & WHINNEY
Chartered Accountants



HEALTH FOOD.

Sugar? A health food? Let's face it, no single food can make that claim. But sugar is safe for your health.

Over one thousand papers by doctors and scientists have been investigated, researched and re-studied by the U.S. Food and Drug Administration. Once again the results have proved that sugar is not addictive. It does not cause obesity or diabetes. It does not displace other nutrients needed in your diet when eaten in moderate amounts. Nor does it cause hypoglycemia, heart disease or any other illness.

Studies have even exploded the popular myth that sugar causes hyperactivity among children. And tooth decay can now be greatly reduced through fluoridation and better oral hygiene.

After centuries of use sugar has already stood the test of time. How many artificial sweeteners can claim that kind of health record?



NOTHING EQUALS SUGAR.

*This is the fourth
in a series of
advertisements
being published
by the Canadian
Sugar Institute.*

Directors

J. C. Anderson
President of Anderson Exploration Ltd.

Ian Angus
Formerly Vice-President of the Company

William C. Brown
Vice-President of the Company

Peter A. Cherniavsky
Chairman of the Company

John G. Cochrane
Vice-President of the Company

William R. Hetherington
Formerly Vice-President of the Company

John W. Pitts
*President of MacDonald Dettwiler
and Associates Ltd.*

H. Richard Whittall
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Richardson Greenshields of Canada Limited*

F. Cameron Wilkinson
Chairman of Wilkinson Company Limited

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and Secretary*

G. M. Guccione
*General Manager,
Alberta Sugar*

David M. S. Elliott
*General Manager,
Manitoba Sugar*

James W. Hudson
Treasurer

Brian A. Rogers
General Sales Manager

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Stock Listing

Toronto Stock Exchange

Transfer Agents

National Trust Company

Annual Meeting

The Annual Meeting
of Shareholders will be
held on Monday,
February 16, 1987 at 3:00 P.M.
in the Park Ballroom of
The Four Seasons Hotel,
Vancouver, British Columbia.

