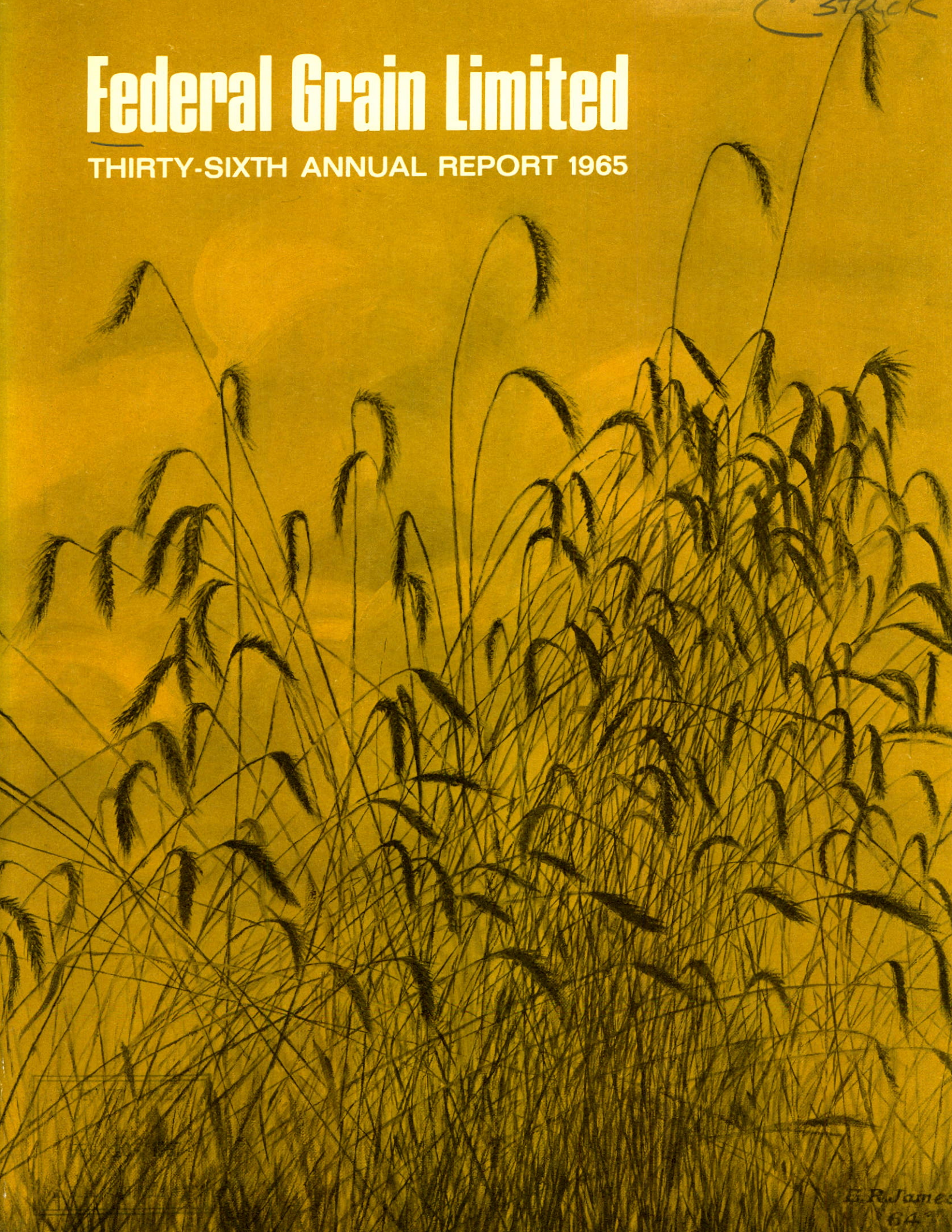


Federal Grain Limited

THIRTY-SIXTH ANNUAL REPORT 1965



Cover picture "Thru The Rye" by E. R. James,
Grosse Isle, Manitoba.

COURTESY RED RIVER EXHIBITION

Federal Grain Limited

DIRECTORS

J. E. GAGE J. A. MacAULAY, Q.C. E. H. MONCRIEFF
G. H. SELLERS H. E. SELLERS, C.B.E.
W. P. SCOTT C. GORDON SMITH J. T. TRYON, C.A.

OFFICERS

H. E. SELLERS, C.B.E., Chairman of the Board
G. H. SELLERS, President
J. E. GAGE, Vice-President
A. BOYSE, Vice-President
J. T. TRYON, C.A., Vice-President and Controller
R. J. BAILEY, Vice-President and Secretary
E. M. NOSWORTHY, Treasurer

REGISTRARS

THE ROYAL TRUST COMPANY
Toronto, Montreal and Winnipeg
MONTREAL TRUST COMPANY
Toronto, Montreal and Winnipeg

HIGHLIGHTS OF THE YEAR

The Annual Meeting of the shareholders of Federal Grain Limited will be held at 2:30 p.m. on November 30, 1965, at the Head Office of the Company in Winnipeg.

Net earnings from operations of the Company for the year amounted to \$1,533,394.

Capital expenditures on country elevators, annexes, terminals and other properties amounted to \$2,056,500.

Provision was made for the redemption on August 3, 1965, of the 57,794 outstanding preferred shares.

The Class A and Class B common shares were split 10 for 1, and an additional 1,600,000 Class A shares were authorized.

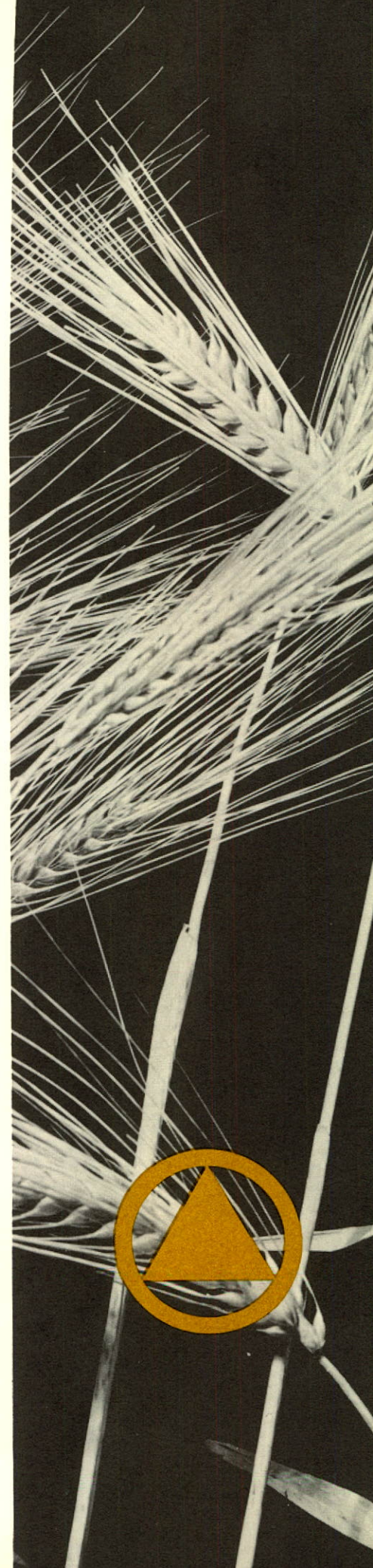
REPORT TO THE SHAREHOLDERS

FOR THE YEAR ENDED JULY 31, 1965

Your Directors are pleased to present the Annual Report and Audited Financial Statements of Federal Grain Limited and its wholly owned subsidiaries for the year ended July 31, 1965.

For many years our most important subsidiary, Alberta Pacific Grain Ltd., has ended its financial year on June 30, a month earlier than Federal Grain Limited. In order to simplify accounting procedures and to facilitate the preparation of reports required by governmental boards, the year-end has now been changed to July 31 to co-incide with the crop year and the fiscal period of the parent Company. Thirteen months of Alberta Pacific Grain Ltd. operations are thus included in the present report. The additional month, however, made very little difference in the comparative statement of earnings.

Net earnings from the year's operations after making provision for income taxes of \$1,212,500 amounted to \$1,533,394. This amount together with \$528,378 realized on the sale of fixed and other assets has been credited to Earnings Employed in the Business.



CAPITAL OUTLAY AND OTHER EXPENDITURES We have maintained our policy of modernizing and improving our properties. In addition to this program nine new country elevators were built. Three of these, however, replaced fire losses. Extensive work has been carried out at our terminal elevators during the year, the major part of which involved replacing and improving electric power plants and drives. A summary of expenditures made during the year is outlined as follows:

Construction, renovation and improvements of country storage facilities	\$1,306,300
Agents' dwellings, fertilizer sheds, etc.	310,900
Terminal elevators	439,300
	<hr/>
	\$2,056,500

In common with other industries, our Company is facing ever increasing costs in all areas. Wage scales are rising sharply, and municipal taxes have more than doubled during the past few years. Unlike many other industries, however, our main sources of revenue are fixed by governmental boards. These tariffs have remained almost constant despite increased costs. Our earnings have been maintained only because recent crop production has been generally above average, and our volume handled has been large.

PREFERRED SHARES At a Special Meeting of Preferred shareholders on November 28, 1950, new Preferred shares were issued in exchange for those outstanding, the terms of which obligated our Company to set aside 20% of net earnings annually for redemption of outstanding Preferred shares. Conforming to this provision, 92,206 Preferred shares were purchased for redemption during the following fifteen years. It was not possible to purchase on the market in the year 1964-65 the number of shares required under the sinking fund provisions.

After careful consideration it was decided to call all the outstanding Preferred shares for redemption effective August 3, 1965. The cost of redeeming these shares, including all taxes thereon, has been provided for on the Balance Sheet, amounting to \$1,850,100. At the date of this report all shares have been redeemed.

INVESTMENTS During the year the Company disposed of its interests in several smaller companies. The money received substantially covered the cost of redeeming the Preferred shares referred to in the preceeding paragraph.

1964-1965 CROP AND EXPORT MARKETS The 1964-65 prairie crop production of 984,330,000 bushels was better than average, although 267,000,000 bushels less than the bumper crop of the previous year. Exports of wheat and flour amounted to 398,200,000 bushels, compared to 591,100,000 bushels in the previous year. The decrease in export was due to the much smaller sales contracts made with Russia.

RAIL LINE ABANDONMENTS The legislation on rail line abandonments referred to in the Company's Annual Report last year has been deferred due to the dissolution of Parliament. However, the legislation proposed fell far short of the initial announcements referred to in our report last year. The prairie provincial governments, farmers' organizations, grain handling organizations and other interests are still working together to seek protection of the public interest in abandonment proceedings. While there was no provision in the legislation before the last Parliament to compensate grain handling companies for property losses sustained through abandonments, strong representations have been made, and we hope appropriate action, fair to those concerned, will be taken at an early date when Parliament re-assembles.



1965-1966 CROP



After some delay in the seeding, growing conditions in practically all areas of the prairies were nearly ideal, the main exception being part of the Peace River area in Alberta which suffered from drought. As a result the crop was about ten days late. Hot, dry weather towards the end of July and early August caused some deterioration in the exceptionally heavy crop stands. Inclement wet weather delayed harvesting operations, and a substantial portion of the crop has a high moisture content. This will tax the handling and drying facilities of our country elevators and terminals. The prolonged adverse weather during harvesting operations has caused considerable deterioration in the quality of the prairie wheat crop. □ The September, 1965 forecast of the Dominion Bureau of Statistics estimates the 1965-66 production of all grains in the Prairie Provinces at 1,229,500,000 bushels as compared with 984,330,000 bushels for the year just past. Thus it appears that one of the largest crops in Western Canada will be harvested this year. With this large crop in view, it is most important to the economy of Canada that the Canadian Wheat Board has again made record sales in world markets.

NEW FINANCING On October 15, 1965, the Company sold a \$5,000,000 issue of 6% Sinking Fund, 20-year Debentures privately. The funds derived from this issue will augment our working capital and will be used for general corporate purposes. In particular, the Company proposes to increase the capacity of its Port Arthur terminal elevator by a further 2,000,000 bushels, and to install improved equipment providing greater efficiency in unloading railway cars and loading ships at this location. The adjacent berth is to be deepened to accommodate deep sea vessels and increase the speed of loading.

These expenditures, together with other projects, are estimated to cost approximately \$4,000,000, and will provide for expected larger handlings and future expansion.

BOARD OF DIRECTORS We report with deep regret the death of Mr. A. W. Sellers on March 15, 1965, and the Honourable H. J. Symington on September 28, 1965. Mr. Sellers and Mr. Symington had served on the Board of Directors of the Company for many years.

After thirty-six years of loyal and devoted service, Mr. H. C. MacGregor retired as Vice-Chairman and Director of the Company on May 7, 1965.

We are pleased to advise you that Mr. E. H. Moncrieff and Mr. J. T. Tryon were appointed Directors of the Company on May 7, 1965. Mr. Moncrieff is associated with many important business interests in Western Canada. Mr. Tryon is a Vice-President and Controller of the Company.

STAFF Your Directors wish to express their appreciation and thanks to all members of the organization whose efforts on behalf of the Company have resulted in another year of satisfactory operation.

On behalf of the Board of Directors



Chairman of the Board



President

October 25, 1965



TOUCHE, ROSS, BAILEY & SMART

CHARTERED ACCOUNTANTS

HALIFAX
QUEBEC
MONTREAL
TORONTO
LONDON
REGINA
NORTH BATTLEFORD
EDMONTON

SAINT JOHN
CAP DE LA MADELEINE
OTTAWA
HAMILTON
WINNIPEG
SASKATOON
CALGARY
VANCOUVER
VICTORIA

213 NOTRE DAME AVENUE
WINNIPEG 2, MAN.
CABLE ADDRESS "TROBAS"

UNITED STATES OF AMERICA
GREAT BRITAIN
AND OTHER COUNTRIES
THROUGHOUT THE WORLD

AUDITORS' REPORT

To the Shareholders,
Federal Grain, Limited,
Winnipeg, Manitoba.

We have examined the consolidated balance sheet of Federal Grain, Limited and its wholly owned subsidiaries as at 31st July 1965, and the consolidated statements of earnings and earnings employed in the business for the year ended on that date. Our examination of the financial statements of Federal Grain, Limited and the subsidiary of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of Messrs. Glendinning, Campbell, Jarrett & Dever, Chartered Accountants, who have examined the consolidated financial statements of the other subsidiary, Alberta Pacific Grain Ltd.

In our opinion the accompanying consolidated balance sheet and consolidated statements of earnings and earnings employed in the business present fairly the financial position of the companies as at 31st July 1965 and the results of their operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Winnipeg, Manitoba,
18th October 1965.

Touche, Ross, Bailey & Smart

Chartered Accountants.



FEDERAL GRAIN LIMITED AND ITS WHOLLY OWNED SUBSIDIARIES



ASSETS

CURRENT ASSETS

	1965	1964
Cash in transit and with paying agents, etc.	\$ 718,536	\$ 322,749
Term deposits	1,805,185	—
Accounts receivable	3,335,444	3,642,600
Stocks on hand		
Grain purchased for account of The Canadian Wheat Board, valued on the basis of Board prices less freight, etc.	44,186,714	38,926,378
Grain, less stored grain, valued on the basis of relative closing market quotations	1,404,033	1,690,631
Coal, seed, chemicals and fertilizers, valued at the lower of cost or market	1,189,337	610,118
Accrued earnings	581,002	496,771
Prepaid expenses	598,505	565,508
	<u>53,818,756</u>	<u>46,254,755</u>

INVESTMENTS

Memberships in and shares of grain trade organizations, at cost	570,463	592,777
Shares of other grain and seed companies, at cost	490,931	1,337,706
	<u>1,061,394</u>	<u>1,930,483</u>

FIXED ASSETS

Terminal and country elevators, annexes, coal sheds, dwellings, flour sheds, automobiles, furniture and miscellaneous buildings and equipment, at cost, less accumulated allowance for depreciation of \$27,378,392 (1964 — \$26,605,243)	8,041,681	6,835,427
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Approved on behalf of the Board

H. E. SELLERS, Director

G. H. SELLERS, Director

<u>\$62,921,831</u>	<u>\$55,020,665</u>
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NOTE 1.

During the year ended 31st July 1965 and in accordance with the provisions attaching to the \$1.40 Cumulative Redeemable Preference Shares, the company provided for the redemption of the balance of the outstanding shares of this class at a total cost, including accrued and postponed dividends, of \$1,734,398. The shares were duly redeemed on 3rd August 1965 by resolution of the Board of Directors dated 7th May 1965 and the total redemption price was paid on 3rd August 1965.

A tax on the redemption of the aforementioned Preferred Shares in the amount of \$115,700 has been provided for in the accounts and is payable on or before 1st January 1967.

CONSOLIDATED BALANCE SHEET AT 31st JULY, 1965

(with comparative figures at 31st July 1964)

STATEMENT I

LIABILITIES AND CAPITAL

CURRENT LIABILITIES

	1965	1964
Bank loans, secured	\$15,353,536	\$ 8,949,044
Notes payable	11,740,000	13,900,000
Outstanding cheques, less current account balances	3,137,191	3,336,995
Outstanding cash tickets and orders	6,670,660	5,486,073
Patronage dividend accrued seasons 1964-1965 and 1963-1964	494,825	490,183
Sundry creditors	5,883,367	3,384,212
Accrued taxes, including estimated income taxes payable	435,538	1,580,719
Dividend payable	—	91,349
Due to preferred shareholders — note 1	1,734,398	—

45,449,515 37,218,575

EMPLOYEES' RETIREMENT RESERVE

800,629 800,629

PROVISION FOR UNCOMPLETED REPAIRS AND SPECIAL ALTERATIONS

400,000 400,000

CAPITAL SURPLUS resulting from purchase of preference shares for cancellation

1,844,120 1,784,820

CAPITAL

Authorized — note 2

150,000 \$1.40 cumulative redeemable preference shares of the par value of \$20.00 each

3,200,000 Class A common shares without nominal or par value

400,000 Class B common shares without nominal or par value

	1965	1964		
Issued and fully paid				
Preference shares issued	150,000	150,000	3,000,000	3,000,000
Less purchased for cancellation	92,206	89,241	1,844,120	1,784,820
Outstanding preference shares	57,794	60,759	1,155,880	1,215,180
Common shares				
Class A common shares	1,600,000	160,000	1,000,000	1,000,000
Class B common shares	400,000	40,000	250,000	250,000
			2,405,880	2,465,180

EARNINGS EMPLOYED IN THE BUSINESS

12,021,687 12,351,461
\$62,921,831 \$55,020,665

NOTE 2.

By Supplementary Letters Patent dated 4th January 1965 the Class A shares and the Class B shares were subdivided into 1,600,000 Class A shares and 400,000 Class B shares and an additional 1,600,000 Class A shares were authorized.

In connection with the aforementioned redemption of preferred stock and sub-division of common stock, the voting rights of each class of share capital have changed as follows:

	1965	1964
Preferred stock (when 6 quarterly dividends are in arrears)	2 votes per share	1/5 vote per share
Class A common stock	1 vote per share	no voting rights
Class B common stock	10 votes per share	1 vote per share



FEDERAL GRAIN LIMITED AND ITS



CONSOLIDATED STATEMENT OF EARNINGS EMPLOYED IN THE BUSINESS FOR THE YEAR ENDED 31st JULY 1965 (with comparative figures for the year ended 31st July 1964)

STATEMENT II

	1965	1964
Balance at beginning of year	\$12,351,461	\$11,521,330
Deduct Dividends paid or payable		
Preferred shares	\$ 82,821	89,240
Class A common shares	296,000	264,000
Class B common shares	74,000	66,000
	452,821	419,240
Purchase of preference shares for cancellation	88,656	321,532
Provision for purchase of balance of preference shares for cancellation	1,734,398	—
Provision for taxes payable on redemption of preferred shares	115,700	—
Inter-company adjustments on consolidation	—	63,175
Adjustment of prior years' income taxes	—	102,000
Adjustment of prior years' property balances to convert to capital cost allowance basis	—	403,472
	2,391,575	1,309,419
	9,959,886	10,211,911
Add Net earnings for the year	1,533,394	1,780,938
Inter-company adjustments on consolidation	29	—
Excess realized on disposal of fixed assets and investments	528,378	358,612
Balance at end of year	\$12,021,687	\$12,351,461

WHOLLY OWNED SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEAR ENDED 31st JULY 1965 (with comparative figures for the year ended 31st July 1964)

STATEMENT III

	1965	1964
Income from the companies' operations resulting from gross revenues of \$12,820,435 and after meeting all expenses including directors' remuneration of \$251,867 but before taking into account the items shown below.	\$ 3,564,107	\$ 4,541,397
Less Depreciation	1,036,435	849,746
Bond interest	—	38,905
	1,036,435	888,651
Earnings from operations	2,527,672	3,652,746
Income from investments	218,222	213,192
Earnings before providing for estimated taxes on income	2,745,894	3,865,938
Less Provision for estimated income taxes	1,212,500	2,085,000
Net earnings for the year — note 3	\$ 1,533,394	\$ 1,780,938

NOTE 3.

During the period under review the year end of Alberta Pacific Grain Ltd. was changed from 30th June 1965 to 31st July 1965. Consequently the consolidated net earnings at 31st July 1965 include the operating results of Alberta Pacific Grain Ltd. for a thirteen month period and this has resulted in an increase in the consolidated net earnings after income taxes of \$46,006.

NOTE 4.

On 15th October 1965 the company issued \$5,000,000 6% Sinking Fund Debentures Series A for the purpose of expanding its line elevator and terminal facilities. Under the terms of the indenture, the company will pay to the Trustee, for the retirement of principal, \$250,000 before 15th October in each of the years 1969 to 1984.

The issue will be secured by a registration against the title of the company's two terminal elevators in the cities of Fort William and Port Arthur.



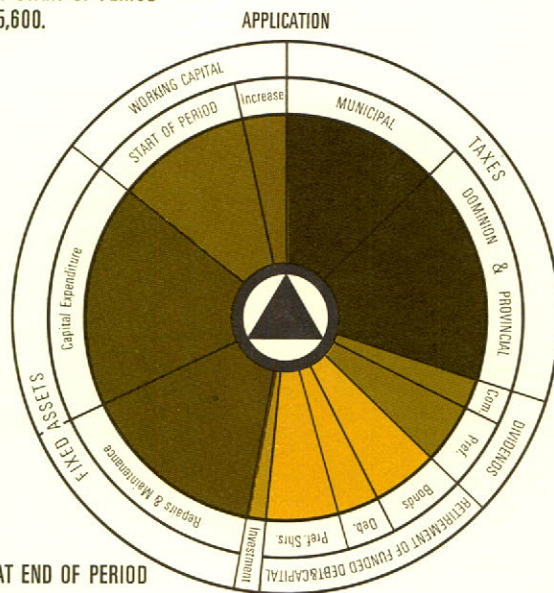
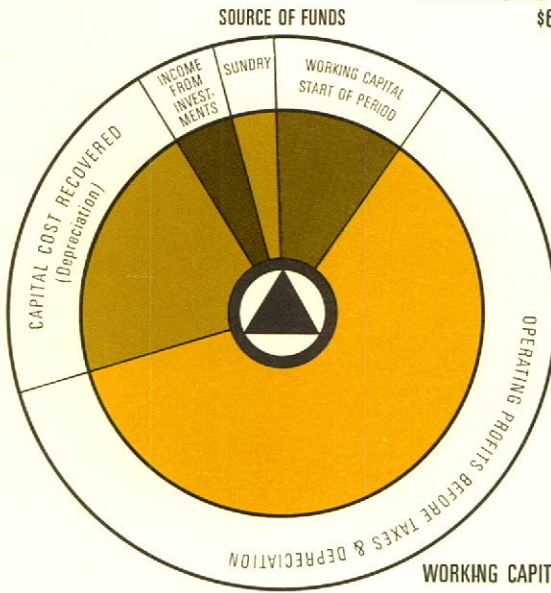
One of the Company's standard country elevators with storage annexes.

The Company's terminal elevator at Port Arthur.

Total storage capacity at Winkler, Manitoba was increased to 125,000 bushels last summer with the official opening of this new 55,000 bushel elevator.

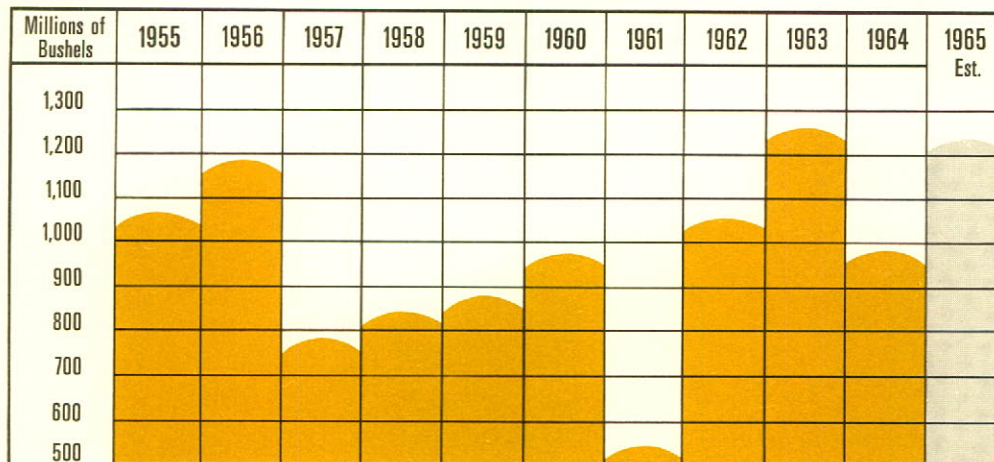
"THE WHEELS OF PROGRESS"—FOR 10-YEAR PERIOD

WORKING CAPITAL AT START OF PERIOD
\$6,605,600.



GRAIN PRODUCTION—PRAIRIE PROVINCES FOR 10-YEAR PERIOD

(1965 ESTIMATE—1,229,500,000 BUSHEL)





THE SIGN OF SERVICE

Federal Grain Limited.
Alberta Pacific Grain Ltd.