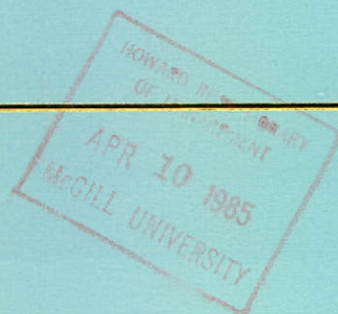


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CANADA MALTING ANNUAL REPORT 1984



Report to the Shareholders

Report of the Directors
to the Shareholders
for the financial year ended
December 31, 1984

Your Company's consolidated net earnings for 1984 were \$6.34 million or \$2.41 per share. Comparable results for 1983 were net earnings of \$8.16 million, or \$3.10 per share, before an extraordinary profit of \$0.3 million or 12¢ per share.

Profit declined in 1984 because of lower volume and margins in the Company's export shipments. World malt supplies exceeded a demand that was affected by a cessation of growth in consumption in some areas and financial problems in others.

The Company's malt shipments to customers in Canada in 1984 changed only slightly from 1983, as the Canadian market for malt continued its pattern of little or no growth. The negative features of the export market therefore resulted in lower total malt shipments and production by the company in 1984.

We currently expect less satisfactory results from our export business in 1985 than in the past year. There has been a continuation of the weakness in world demand, while excellent crops of malting barley in Europe have added to the pressure on margins as maltsters compete fiercely for sales in a difficult world market. In addition to these factors, extremely dry weather in the Canadian Prairies last summer affected the quality and quantity of the two-row barley required to produce malt for some major export markets.

There was an improvement in the performance of Leaver Mushrooms for 1984, and we anticipate the continuation of a satisfactory level of earnings in 1985.

With deep regret we record the death in January, 1985 of Mr. W. Douglas Hatch, a Director of Canada Malting since 1959. Mr. Hatch was an active and valued member of the Board and its committees, and we shall miss him. We extend our deepest sympathy to Mr. Hatch's family.

Mr. J. Anthony Doyle, a partner in the law firm of Blake, Cassels and Graydon, has accepted an appointment as a Director of the Company, and we are pleased to welcome him to the Board.

Your Directors express to all employees sincere appreciation for their valuable service to the Company during 1984.

On behalf of the Directors,



C.F. EDWARDS,
President and
Chief Executive Officer.

Toronto, Ontario
March 5, 1985

Consolidated Balance Sheet

(expressed in thousands of dollars)

	1984	1983
	December 31	
Assets		
Current assets:		
Accounts receivable	\$ 15,637	\$ 13,742
Inventories	<u>51,838</u>	<u>44,424</u>
	67,475	58,166
Fixed assets (Note 2)	<u>50,833</u>	<u>54,004</u>
	<u>\$118,308</u>	<u>\$112,170</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank advances and bankers' acceptances (Note 3)	\$ 3,880	—
Accounts payable and accrued liabilities	10,113	8,993
Income taxes payable (Note 4)	1,478	2,922
Long-term debt payable within one year (Note 3)	<u>2,400</u>	<u>—</u>
	17,871	11,915
Long-term debt:		
Term loan (Note 3)	10,400	12,356
Deferred income taxes , net of investment tax credits recoverable (Note 4)	11,239	13,424
Shareholders' equity:		
Common shares (Note 5)	5,395	5,395
Retained earnings	<u>73,403</u>	<u>69,080</u>
	<u>78,798</u>	<u>74,475</u>
	<u>\$118,308</u>	<u>\$112,170</u>

APPROVED BY THE BOARD:

C. J. Edwards Director

[Signature] Director

Consolidated Statement of Earnings

(expressed in thousands of dollars)

	1984	1983
	Year ended December 31	
Net sales	\$166,499	\$178,450
Costs and expenses:		
Cost of products sold and all expenses except items shown below	148,345	156,497
Bank and other interest (Note 3)	2,015	2,713
Property rentals (Note 6)	908	763
Depreciation	5,006	4,993
	<u>156,274</u>	<u>164,966</u>
Earnings before income taxes	10,225	13,484
Income taxes:		
Current	5,349	6,612
Deferred	(1,464)	(1,289)
	<u>3,885</u>	<u>5,323</u>
Earnings before extraordinary item	6,340	8,161
Extraordinary item (Note 8)	—	300
Net earnings for the year	<u>\$ 6,340</u>	<u>\$ 8,461</u>
Earnings per share:		
Before extraordinary item	\$ 2.41	\$ 3.10
Extraordinary item	—	0.12
	<u>\$ 2.41</u>	<u>\$ 3.22</u>

Consolidated Statement of Retained Earnings

(expressed in thousands of dollars)

	1984	1983
	Year ended December 31	
Balance at beginning of year	\$ 69,080	\$ 60,557
Net earnings for the year	6,340	8,461
Amount transferred from appraisal increase	—	1,772
	<u>75,420</u>	<u>70,790</u>
Deduct: Dividends paid		
\$0.77 per share (1983 — \$0.65)	2,017	1,710
Balance at end of year	<u>\$ 73,403</u>	<u>\$ 69,080</u>

Consolidated Statement of Changes in Financial Position

(expressed in thousands of dollars)

	1984	1983
	Year ended December 31	
Funds provided by (used in) operating activities:		
Earnings before extraordinary item	\$ 6,340	\$ 8,161
Non-cash items:		
Depreciation	5,006	4,993
Deferred income taxes	(1,464)	(1,289)
Gain on disposal of fixed assets	(66)	(15)
	<u>9,816</u>	<u>11,850</u>
Change in non-cash working capital balances:		
Accounts receivable	(1,895)	6,349
Inventories	(7,414)	8,438
Income taxes payable	(1,444)	1,995
Change in accounts payable and accrued liabilities	1,120	(409)
	<u>(9,633)</u>	<u>16,373</u>
Funds provided by operating activities	183	28,223
Funds provided by (used in) financing and investment activities:		
Investment tax credits recoverable	(721)	2,407
Extraordinary item, being the proceeds of sale less current income taxes	—	474
Proceeds from disposal of fixed assets	80	21
Dividends paid	(2,017)	(1,710)
Additions to fixed assets	(1,849)	(1,581)
	<u>(4,507)</u>	<u>(389)</u>
Increase (decrease) in funds	(4,324)	27,834
Bank advances and term loans at beginning of year	<u>12,356</u>	<u>40,190</u>
Bank advances and term loans at end of year	<u>\$16,680</u>	<u>\$12,356</u>

Notes to Consolidated Financial Statements

1. Summary of accounting policies

(a) Principles of consolidation —

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Leaver Mushrooms Co. Limited.

(b) Inventories —

Inventories are valued at the lower of cost and net realizable value.

(c) Fixed assets —

Land, buildings and equipment are stated at 1955 appraised values plus subsequent additions at cost. Depreciation provisions are computed by the straight-line method at rates based on the estimated useful lives of the depreciable assets, principally as follows:

Buildings	— 2.5% per annum
Indirect heating and heat recovery equipment	— 10.0% per annum
Other machinery and equipment	— 7.5% per annum

The Corporation follows the policy of capitalizing interest on borrowings during the construction of major projects. Government grants and investment tax credits relating to the projects are deducted from their cost.

(d) Appraisal increase —

The appraisal increase represents the excess of the appraised value of the fixed assets over their depreciated book value on February 28, 1955. The Corporation had followed the policy of transferring the appraisal increase to retained earnings in annual amounts representing the additional depreciation provided on the appraisal increase. At December 31, 1983 the balance of \$1,772,000 was transferred to retained earnings.

(e) Pensions —

Current service costs are charged to operations as they occur.

On the basis of independent actuarial reports obtained by the Corporation, no unfunded past service costs remain unamortized at December 31, 1984.

(f) Foreign currency transactions —

The Corporation's principal transactions involving foreign currencies are export sales, substantially all of which are covered by foreign exchange contracts or foreign bank advances. These sales are translated into Canadian dollars at the rates applicable to the related forward exchange contracts or foreign bank advances.

Current assets and current liabilities to be settled in foreign currencies are translated into Canadian dollars at rates applicable to related forward exchange contracts, or at exchange rates prevailing at the balance sheet date.

Notes to Consolidated Financial Statements

2. Fixed assets

	1984	1983
	December 31 (thousands of dollars)	
Buildings and equipment	\$97,961	\$96,269
Accumulated depreciation	48,770	43,903
	49,191	52,366
Land	1,642	1,638
	<u>\$50,833</u>	<u>\$54,004</u>

3. Bank financing

The loans are payable to a Canadian chartered bank with interest payable monthly and can be financed at the bank's prime rate or by the issuance of bankers' acceptances. The interest rate is subject to review on July 30, 1985.

The term loan expires in 1990 and annual principal repayments of \$2,400,000 are required. Prepayment is permitted without penalty or bonus. Long-term interest expense in 1984 was \$1,252,000 (1983 — \$1,392,000).

4. Income taxes

The Corporation's effective tax rate is made up as follows:

	1984	1983
Combined basic federal and provincial tax rate	49.1%	48.8%
Increase (decrease) in the income tax rate resulting from:		
Federal income tax surcharge	—	0.9
Manufacturing and processing profits deduction	(4.7)	(5.7)
Inventory allowance	(6.2)	(5.2)
Other	(0.2)	0.7
Effective tax rate	<u>38.0%</u>	<u>39.5%</u>

Investment tax credits arising from capital expenditures and amounting to \$1,875,000 (1983 — \$1,154,000) are available to reduce income taxes payable in future years. These expire as follows: 1985 — \$1,273,000; 1986 — \$476,000; 1987 — \$89,000; and 1988 — \$37,000. The credits are reflected in the balance sheet as a reduction of deferred income taxes.

5. Common shares

On December 31, 1984 and 1983 the Corporation had authorized share capital of an unlimited number of common shares without nominal or par value.

By resolution of the shareholders on March 6, 1984 each of the 877,148 common shares of the Corporation were subdivided into three shares. As at December 31, 1984 2,631,444 shares were outstanding with a stated value of \$5,395,000. The per share amounts reflect this share split.

Notes to Consolidated Financial Statements

6. Leased property

Under the terms of the lease taken back on the Toronto Bathurst Street property, expropriated in 1973, the Corporation has leased the property to November 30, 1987 with the right to terminate the lease with one year's notice. The Corporation may also, with one year's notice to take effect at any time, require the lessor to take possession of any part of the leased property with an appropriate adjustment of the rent. The lessor has the right to terminate the lease with four years' notice. The annual rent for the balance of the lease period is currently \$614,000.

The Corporation has reached an agreement in principle with the lessor to cancel the existing lease and enter into a new lease. The term of this new lease will be from April 1, 1984 to December 31, 2012. Both lessor and lessee will have options to terminate the lease at an earlier date. The annual rent under the new agreement has not yet been finalized.

7. Segmented information and related party transactions

Sales of malt constitute the dominant industry segment of the Corporation. The malt is processed from Canadian barley and supplied to brewers, distillers and food manufacturers.

Of the total quantity of malt sold by the Corporation, export sales accounted for approximately 35% (1983 — 40%) and sales to shareholders approximately 51% (1983 — 45%).

Sales to related parties are made in the normal course of business and on the same terms and conditions as sales to unrelated parties.

8. Extraordinary item

This represents the gain on the sale of Leaver Mushrooms Co. Limited's Dixie plant net of income taxes.

To the Shareholders of Canada Malting Co. Limited:

We have examined the consolidated balance sheet of Canada Malting Co. Limited as at December 31, 1984 and the consolidated statements of earnings, retained 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 Corporation as at December 31, 1984 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.

Toronto, Ontario
March 5, 1985

Price Waterhouse
Chartered Accountants

Auditors' Report

10 Year Summary

(expressed in thousands of dollars
except current ratio and per share
amounts)

Operations	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
Net Earnings:										
Before extraordinary item	\$6,340	\$8,161	\$6,471	\$4,824	\$4,716	\$4,785	\$5,609	\$3,656	\$2,023	\$2,601
After extraordinary item	6,340	8,461	6,471	4,824	3,935	4,785	5,609	3,656	6,482	2,601
Financial										
Working Capital	49,604	46,251	37,634	28,092	24,930	28,301	29,209	24,375	22,253	15,728
Fixed Assets (net)	50,833	54,004	57,710	62,037	61,533	34,062	28,756	28,696	27,811	28,740
Total Assets	118,308	112,170	130,663	138,609	139,069	95,190	77,042	75,821	79,419	85,083
Shareholders' Equity	78,798	74,475	67,724	62,832	59,587	57,147	53,864	49,753	47,285	42,012
Current Ratio										
	3.78-1	4.88-1	2.07-1	1.58-1	1.47-1	1.86-1	2.57-1	2.12-1	1.80-1	1.41-1
Per Common Share										
Net Earnings:										
Before extraordinary item	2.41	3.10	2.46	1.83	1.79	1.83	2.15	1.41	.78	1.00
After extraordinary item	2.41	3.22	2.46	1.83	1.50	1.83	2.15	1.41	2.50	1.00
Dividends — Regular	.77	.65	.60	.60	.60	.60	.53	.48	.47	.47
— Extra							.07			
Shareholders' Equity	29.94	28.30	25.74	23.88	22.64	21.81	20.63	19.12	18.23	16.20

Corporate Information

Board of Directors

*John W. Adams, FCA
William P. Cooper
Robert Després, O.C.
J. Anthony Doyle
Cecil F. Edwards

Douglas W. Elliott
Rhys T. Eyton
James C. Grant
*John P.G. Kemp
*Wallace F. Read

*Member of the Audit Committee

Honorary Director

Leonard G. Lumbers

Officers

Cecil F. Edwards President and Chief Executive Officer
Douglas W. Elliott Vice President, Sales
Alexander L. Mackay Director of Operations
Donald W. McQuat Manager of Operations
I.G. Paulin Secretary and Director of Administration
Jonathan Bamberger Treasurer

Head Office

1 Bathurst Street
Toronto, Ontario M5V 2N8

Malthouses and Elevators

Toronto Montreal Winnipeg
Calgary Thunder Bay

Transfer Agent and Registrar

National Trust Company, Limited
Toronto Montreal

The Annual meeting will be held at 11:30 a.m. on Thursday, April 25, 1985 in the Alberta Room at the Royal York Hotel, 100 Front Street West, Toronto, Ontario.

