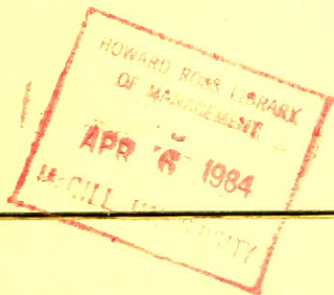


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CANADA MALTING ANNUAL REPORT 1983





Report to the Shareholders

Report of the Directors
to the Shareholders
for the financial year ended
December 31, 1983

Your Company's 1983 consolidated net earnings before an extraordinary item were \$8.161 million or \$9.31 per share. Comparable results for 1982 were net earnings of \$6.471 million, or \$7.38 per share.

In 1983, there was in addition an extraordinary profit of \$300,000 or 34¢ per share on the sale of property in Mississauga owned by Leaver Mushrooms. This increased consolidated net earnings to \$8.461 million or \$9.65 per share.

Shipments of malt to export markets reached a new peak in 1983, while total shipments were the second highest in our history.

Capital expenditures in 1983 were \$1.6 million.

As a result of reduced borrowing and lower interest rates, interest costs were \$4.2 million lower than in 1982. This saving exceeded the \$3.4 million improvement in earnings before taxes and extraordinary item.

The outlook in malt markets for 1984 is not an optimistic one — depressed prices are a feature of the current export market, and we do not expect growth in the domestic market.

Earnings of Leaver Mushrooms improved substantially in 1983, due to stronger markets. At present we expect this market strength to continue during 1984.

In March of 1984, Mr. G. H. Sellers and Mr. R. J. Thomas retired as Directors of your Company. Mr. Sellers joined the Board in 1960, and Mr. Thomas in 1966. Both gentlemen have provided valuable service to Canada Malting as Board members. Mr. Thomas began an illustrious career as an employee of the Company in 1929, and was Chairman of the Board prior to his retirement in 1979.

We express our sincere thanks and best wishes to our two retiring Directors.

We are pleased to report that Mr. W. P. Cooper, President and Chief Executive Officer of Cooper Construction Co. Ltd., Etobicoke, and Mr. R. T. Eyton, President and Chief Executive Officer of Pacific Western Airlines Ltd., Calgary, accepted appointments to the Board in March.

At the Annual Meeting on April 26, 1984, shareholders will be asked to approve a three-for-one split of the common shares of your Company. If this proposal is approved, it is the Directors' intention to increase the rate of dividend to 20 cents per quarter on each new share.

Your Directors express sincere appreciation to all employees for their dedication, effort and accomplishment during 1983.

On behalf of the Directors,



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

Toronto, Ontario
March 6, 1984

Consolidated Balance Sheet

(expressed in thousands of dollars)

	1983	1982
Assets		
	December 31	
Current assets:		
Accounts receivable	\$ 13,398	\$ 19,711
Inventories	44,424	52,862
Prepaid expenses	344	380
	<u>58,166</u>	<u>72,953</u>
Fixed assets (Note 2)	<u>54,004</u>	<u>57,710</u>
	<u>\$112,170</u>	<u>\$130,663</u>
 Liabilities and Shareholders' Equity		
Current liabilities:		
Bank advances and bankers' acceptances (Note 3)	\$ —	\$ 22,490
Accounts payable and accrued liabilities	8,993	9,402
Income taxes payable (Note 4)	2,922	927
Long-term debt payable within one year	—	2,500
	<u>11,915</u>	<u>35,319</u>
Long-term debt:		
Term loan (Note 3)	12,356	15,200
Deferred income taxes , net of investment tax credits recoverable (Note 4)	13,424	12,420
Shareholders' equity:		
Common shares (Note 5)	5,395	5,395
Retained earnings	69,080	60,557
	<u>74,475</u>	<u>65,952</u>
Appraisal increase, less amounts transferred to retained earnings	—	1,772
	<u>74,475</u>	<u>67,724</u>
	<u>\$112,170</u>	<u>\$130,663</u>

APPROVED BY THE BOARD:

C. J. Edwards Director

W. A. Hatch Director

Consolidated Statement of Earnings

(expressed in thousands of dollars)

	1983	1982
	Year ended December 31	
Net sales	\$178,450	\$179,501
Costs and expenses:		
Cost of products sold and all expenses except items shown below	156,497	156,815
Bank and other interest (Note 3)	2,713	6,898
Property rentals (Note 6)	763	744
Depreciation	4,993	4,930
	<u>164,966</u>	<u>169,387</u>
Earnings before income taxes	13,484	10,114
Income taxes:		
Current	6,612	1,111
Deferred	(1,289)	2,532
	<u>5,323</u>	<u>3,643</u>
Earnings before extraordinary item	8,161	6,471
Extraordinary item (Note 8)	<u>300</u>	<u>—</u>
Net earnings for the year	<u>\$ 8,461</u>	<u>\$ 6,471</u>
Earnings per share:		
Before extraordinary item	\$ 9.31	\$ 7.38
Extraordinary item	<u>0.34</u>	<u>—</u>
	<u>\$ 9.65</u>	<u>\$ 7.38</u>

Consolidated Statement of Retained Earnings

(expressed in thousands of dollars)

	1983	1982
	Year ended December 31	
Balance at beginning of year	\$ 60,557	\$ 55,519
Net earnings for the year	8,461	6,471
Amount transferred from appraisal increase	<u>1,772</u>	<u>146</u>
	70,790	62,136
Deduct: Dividends paid		
\$1.95 per share in 1983 (1982 — \$1.80)	<u>1,710</u>	<u>1,579</u>
Balance at end of year	<u>\$ 69,080</u>	<u>\$ 60,557</u>

Consolidated Statement of Changes in Financial Position

(expressed in thousands of dollars)

	1983	1982
	Year ended December 31	
Source of working capital:		
Earnings before extraordinary item	\$ 8,161	\$ 6,471
Non-cash charges deducted in arriving at earnings —		
Depreciation	4,993	4,930
Deferred income taxes	(1,289)	2,532
Gain on disposal of fixed assets	<u>(15)</u>	<u>(23)</u>
Funds provided from operations	11,850	13,910
Extraordinary item, being the proceeds of sale less current income taxes (Note 8)	474	—
Application of investment tax credits recoverable to reduce current income tax liability (Note 4)	2,407	291
Proceeds from disposal of fixed assets	<u>21</u>	<u>40</u>
	<u>14,752</u>	<u>14,241</u>
Use of working capital:		
Additions to fixed assets	1,581	620
Dividends paid	1,710	1,579
Reduction of long-term debt	<u>2,844</u>	<u>2,500</u>
	<u>6,135</u>	<u>4,699</u>
Increase in working capital	8,617	9,542
Working capital at beginning of year	<u>37,634</u>	<u>28,092</u>
Working capital at end of year	<u>\$46,251</u>	<u>\$37,634</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 has been 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, 1983. These estimates reflect a reduction of approximately \$900,000 from the amount of unamortized past service costs reported in 1982. This reduction is primarily caused by the fact that experience gains (not reflected in the unamortized past service costs reported since the filing of the 1980 actuarial report) offset the cost of improved benefits.

(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	1983	1982
	December 31 (thousands of dollars)	
Buildings and equipment	\$96,269	\$95,430
Accumulated depreciation	<u>43,903</u>	<u>39,421</u>
	52,366	56,009
Land	<u>1,638</u>	<u>1,701</u>
	<u>\$54,004</u>	<u>\$57,710</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 May 1, 1984.

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 1983 was \$1,392,000 (1982 — \$2,488,000).

4. Income taxes

In determining the provision for income taxes, the earnings before income taxes are adjusted for permanent differences, mainly the 3% inventory allowance. The Corporation's income tax rate is reduced by the manufacturing and processing profits deduction.

Investment tax credits arising from capital expenditures and amounting to \$1,154,000 are available to reduce income taxes payable in future years. These expire as follows: 1985 — \$676,000, 1986 — \$386,000, 1987 — \$59,000, and 1988 — \$33,000. The credits are reflected in the balance sheet as a reduction of deferred income taxes.

5. Common shares

Details of authorized and outstanding common shares of the Corporation on December 31, 1983 and 1982 are as follows:

Authorized —
An unlimited number of shares without nominal or par value
Issued and outstanding —
877,148 shares with a stated value of \$5,395,000

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 extend the lease to November 30, 1990.

Notes to Consolidated Financial Statements

Auditors' Report

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 40% (1982 — 40%) and sales to shareholders approximately 45% (1982 — 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, 1983 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, 1983 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 6, 1984

Price Waterhouse
Chartered Accountants

CANADA MALTING CO. LIMITED
AND SUBSIDIARY COMPANY

10 Year Summary

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

Operations	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
Net Earnings:										
Before extraordinary item	\$8,161	\$6,471	\$4,824	\$4,716	\$4,785	\$5,609	\$3,656	\$2,023	\$2,601	\$4,157
After extraordinary item	8,461	6,471	4,824	3,935	4,785	5,609	3,656	6,482	2,601	4,157
Financial										
Working Capital	46,251	37,634	28,092	24,930	28,301	29,209	24,375	22,253	15,728	14,451
Fixed Assets (net)	54,004	57,710	62,037	61,533	34,062	28,756	28,696	27,811	28,740	29,830
Total Assets	112,170	130,663	138,609	139,069	95,190	77,042	75,821	79,419	85,083	82,643
Shareholders' Equity	74,475	67,724	62,832	59,587	57,147	53,864	49,753	47,285	42,012	40,608
Current Ratio										
	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	1.40-1
Per Common Share										
Net Earnings:										
Before extraordinary item	9.31	7.38	5.50	5.38	5.49	6.46	4.22	2.34	3.01	4.81
After extraordinary item	9.65	7.38	5.50	4.49	5.49	6.46	4.22	7.50	3.01	4.81
Dividends — Regular	1.95	1.80	1.80	1.80	1.80	1.60	1.45	1.40	1.40	1.40
— Extra						.20				
Shareholders' Equity	84.91	77.21	71.63	67.93	65.43	61.89	57.36	54.70	48.60	47.01

Corporate Information

Board of Directors

*John W. Adams, FCA
Robert Després, O.C.
Cecil F. Edwards
Douglas W. Elliott
James C. Grant

*W. Douglas Hatch
*John P.G. Kemp
*Wallace F. Read
George H. Sellers
Reginald J. Thomas

*Member of the Audit Committee

Honorary Director

Leonard G. Lumbers

Officers

Cecil F. Edwards President and Chief Executive Officer
James C. Grant Vice President and General Manager
Douglas W. Elliott Vice President, Sales
Donald W. McOuat Assistant General Manager
Alexander L. Mackay Treasurer
I. G. Paulin Secretary and Director of Administration

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 held at 11:30 a.m. on Thursday, April 26, 1984 at the Royal York Hotel, 100 Front Street West, Toronto, Ontario.

