CANADA MALTING CO.
LIMITED

ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 1981

TO THE SHAREHOLDERS OF
CANADA MALTING CO. LIMITED

ERRATUM

ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 1981

On the Consolidated Balance Sheet, total assets for 1980 should read \$139,069 instead of \$138,609.

CANADA MALTING CO. LIMITED

Board of Directors

JOHN W. ADAMS, FCA	*W. DOUGLAS HATCH
ROBERT DESPRÉS, O.C.	*JOHN P. G. KEMP
CECIL F. EDWARDS	*WALLACE F. READ
DOUGLAS W. ELLIOTT	GEORGE H. SELLERS
JAMES C. GRANT	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	CONTROLLER
GORDON J. CATER	SECRETARY-TREASURER

Registered Office

TORONTO

Malthouses and Elevators

MONTREAL - - WINNIPEG

TORONTO - - CALGARY

THUNDER BAY

Transfer Agent

CANADA PERMANENT TRUST COMPANY

TORONTO - - MONTREAL

CALGARY

Registrar

MONTREAL TRUST COMPANY

TORONTO - - MONTREAL

CALGARY

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 1981

Your Company's consolidated net earnings after taxes for the year 1981 were \$4.82 million or \$5.50 per common share. Net earnings for the previous year were \$4.71 million or \$5.38 per share before an extraordinary loss on disposal of the old Montreal malthouse, which reduced net earnings to \$3.93 million or \$4.49 per share.

Malt production and shipments increased to record levels in 1981. Increased capacity at Montreal supplied the additional production. Shipments to both domestic and export customers were higher than in 1980, but the increase in domestic shipments was chiefly due to the recovery of volume lost in 1980 as a result of work stoppages at breweries in Alberta and British Columbia.

Capital expenditures of \$5.9 million in 1981 include work on major projects started in prior years. We expect capital expenditures of about \$2.5 million in 1982.

Leaver Mushrooms' earnings for the year suffered as a result of a work stoppage at the contract cannery, soft markets for fresh and canned mushrooms, and production levels that, although improved over 1980, were lower than planned.

Improvement of Leaver performance remains a major concern. During 1982 production facilities in Mississauga will be closed and operations will be consolidated at Campbellville. Although this will reduce production capacity by about 15%, the move will have a favourable impact on profitability because of substantial operating savings. The market value of the Mississauga property is expected to be sufficient to provide some gain on its disposal.

We do not anticipate any significant change in markets for malt in 1982; we expect a continuation of slow growth in the domestic market and strong competition in the export market.

Your Company's objectives include high quality in our product and improved efficiency in our operations. The efforts of all employees are a vital factor in meeting those objectives, and your Directors are pleased to record their appreciation of the accomplishments of employees during the past year.

On behalf of the Directors,

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

Toronto, Ontario
March 2, 1982

CANADA MALTING CO. LIMITED

and subsidiary company

CONSOLIDATED STATEMENT OF EARNINGS
(expressed in thousands of dollars)

	Year ended December 31	
	1981	1980
Net sales	$186,989	$152,441
Costs and expenses:		
Cost of products sold and all expenses except items shown below	163,242	139,302
Bank and other interest, less capitalized interest of $1,951,000 in 1980	9,901	1,961
Property rentals (Note 5)	700	655
Depreciation	5,161	2,450
	179,004	144,368
Earnings before income taxes and extraordinary item	7,985	8,073
Income taxes:		
Current	(162)	(1,853)
Deferred	3,323	5,210
	3,161	3,357
Earnings before extraordinary item	4,824	4,716
Extraordinary item:		
Loss on disposal of old Montreal malthouse, net of income tax reduction of $150,000	—	781
Net earnings for the year	$ 4,824	$ 3,935
Earnings per share:		
Before extraordinary item	$5.50	$5.38
After extraordinary item	$5.50	$4.49

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(expressed in thousands of dollars)

	Year ended December 31	
	1981	1980
Balance at beginning of year	$52,128	$48,987
Net earnings for the year	4,824	3,935
Amount transferred from appraisal increase	146	785
	57,098	53,707
Deduct: Dividends on common shares- $1.80 per share in 1981 and 1980	1,579	1,579
Balance at end of year	$55,519	$52,128

CANADA MALTI

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CONSOLIDATED
(expressed in tho

ASSETS

	December 31	
	1981	1980
CURRENT ASSETS:		
Accounts receivable	$ 18,815	$ 19,911
Income taxes recoverable	240	1,501
Inventories-		
Barley and malt	56,488	55,296
Operating supplies	698	579
Prepaid expenses	331	249
	76,572	77,536
OTHER ASSETS:		
Commodity Exchange Seats and Membership in Clearing Association, written down to $1	—	—
FIXED ASSETS:		
Buildings, plant and equipment (Note 2)	95,070	74,648
Less: Accumulated depreciation	34,648	29,701
	60,422	44,947
Construction in progress	—	14,833
Land	1,615	1,753
	62,037	61,533
	~~$138,609~~ $139,069	$138,609

Approved by the Board:

C.F. EDWARDS, *Director*
W.D. HATCH, *Director*

NG CO. LIMITED

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BALANCE SHEET
isands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31	
	1981	1980
CURRENT LIABILITIES:		
Bank advances and bankers' acceptances (Note 3)	$ 33,733	$ 36,034
Accounts payable and accrued liabilities	12,247	16,472
Long-term debt payable within one year	2,500	100
	48,480	52,606
LONG-TERM DEBT:		
Term loan (Note 3)	17,600	20,000
8% first mortgage debentures payable $100,000 annually to 1983	100	200
Deferred income taxes, net of investment tax credits recoverable (Note 4)	9,597	6,676
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized — an unlimited number of common shares without nominal or par value		
Issued and outstanding—		
877,148 shares	5,395	5,395
Retained earnings	55,519	52,128
	60,914	57,523
Appraisal increase, less amounts transferred to retained earnings	1,918	2,064
	62,832	59,587
	~~$138,609~~ $139,069	$139,069

CANADA MALTING CO. LIMITED

and subsidiary company

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(expressed in thousands of dollars)

	Year ended December 31 1981	1980
SOURCE OF WORKING CAPITAL:		
Net earnings for the year	$ 4,824	$ 3,935
Non-cash charges deducted in arriving at earnings—		
Depreciation	5,161	2,450
Deferred income taxes	3,323	5,210
Loss on disposal of old Montreal malthouse	—	931
Funds provided from operations	13,308	12,526
Proceeds from disposal of old Montreal malthouse	240	—
Issue of term loan	—	20,000
Shares issued under employees' stock option plan	—	84
	13,548	32,610
USE OF WORKING CAPITAL:		
Additions to fixed assets	5,905	30,852
Dividends on common shares	1,579	1,579
Reduction of long-term debt	2,500	100
Increase in investment tax credits recoverable (Note 4)	402	3,450
	10,386	35,981
Increase (decrease) in working capital	3,162	(3,371)
Working capital at beginning of year	24,930	28,301
Working capital at end of year	$28,092	$24,930

TEN YEAR EARNINGS
(expressed in thousands of dollars)

	Net Earnings	Earnings per Common Share
1981	4,824	5.50
1980	4,716	5.38†
1979	4,785	5.49
1978	5,609	6.46
1977	3,656	4.22
1976	2,024	2.34†
1975	2,602	3.01
1974	4,158	4.81
1973	3,279	3.60*†
1972	2,836	3.13*

*After providing for dividends on preferred shares
†Excluding extraordinary item

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1981

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 —

Barley and malt are valued at the lower of cost and net realizable value. Operating supplies are valued at cost.

(c) Fixed assets —

Land, buildings, plant 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 follows the policy of transferring the appraisal increase to retained earnings in annual amounts representing the additional depreciation provided on the appraisal increase.

Of the $785,000 transferred to retained earnings in 1980, $604,000 related to the disposal of the old Montreal malthouse and $181,000 to other fixed assets.

(e) Pensions —

Current service costs are charged to operations as they accrue. Unfunded past service costs, amounting to approximately $1,140,000 at December 31, 1981 (1980 — $1,244,000) are being amortized by annual payments through to 1993.

(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. These sales are translated into Canadian dollars at the rates applicable to the related forward exchange contracts.

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.

2. BUILDINGS, PLANT AND EQUIPMENT:

In 1981, a further $167,000 of a grant receivable from the Department of Regional Economic Expansion and $402,000 for investment tax credits were deducted from the total costs incurred on the new malthouse in Montreal and on the indirect heating and heat recovery equipment at all of the plants.

3. BANK FINANCING:

The term loan is payable to a Canadian chartered bank. The loan is for ten years 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. No principal repayments are required until April, 1982; a payment of $2,400,000 is required in that month and annually thereafter. Prepayment is permitted without penalty or bonus.

Long-term interest expense in 1981 was $3,802,000 (1980 — $493,000). Of the 1980 long-term interest, $308,000 was capitalized to the new malthouse in Montreal.

4. INCOME TAXES:

Deferred income taxes are provided for all significant timing differences in reporting costs and expenses for financial statement and tax purposes.

Investment tax credits amounting to $3,852,000 are available to reduce income taxes payable in future years. These credits are reflected in the balance sheet as a reduction of deferred income taxes.

Of the $3,852,000, $783,000 expires in 1984, and $2,666,000 expires in 1985 and $402,000 expires in 1986.

5. 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 Corporation has reached an agreement in principle with the lessor to extend the lease to November 30, 1990.

The annual rent for the balance of the lease period is currently $614,000.

6. 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 40% (1980 — 40%) and sales to shareholders, who account for their investment on the equity basis, 45% (1980 — 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.

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The aggregate direct remuneration paid by the Corporation and its subsidiary to the directors and senior officers of the Corporation during the year ended December 31, 1981, determined in accordance with the Quebec Securities Act, amounted to $46,000 (1980 — $37,000) and $420,000 (1980 — $413,000) respectively.

AUDITORS' REPORT

To the Shareholders of
Canada Malting Co. Limited:

We have examined the consolidated balance sheet of Canada Malting Co. Limited as at December 31, 1981 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, 1981 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 2, 1982

PRICE WATERHOUSE
Chartered Accountants