CANADA MALTING CO.
LIMITED

ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 1980

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

REGINALD J. THOMAS	CHAIRMAN OF THE BOARD
CECIL F. EDWARDS	PRESIDENT AND CHIEF EXECUTIVE OFFICER
JAMES C. GRANT	VICE PRESIDENT AND GENERAL MANAGER
DOUGLAS W. ELLIOTT	VICE PRESIDENT, SALES
GORDON J. CATER	SECRETARY-TREASURER
HARVEY D. WILLOWS	COMPTROLLER
DONALD W. McOUAT	ASSISTANT GENERAL MANAGER

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, 1980

In 1980, your Company's consolidated net earnings after taxes but before an extraordinary loss were \$4.71 million, or \$5.38 per common share. Corresponding figures for 1979 were \$4.78 million net earnings and \$5.49 per share.

The extraordinary loss occurred on the disposal of the old Montreal malthouse, and reduced net earnings to \$3.93 million or \$4.49 per common share.

The volume of malt shipments and earnings from malting operations declined slightly from the previous year. Domestic malt shipments were lower because of work stoppages at breweries in Alberta and British Columbia, while export shipments showed a modest increase.

There was a marked improvement in earnings of Leaver Mushrooms during the first half of 1980, but second half results suffered from a recurrence of production difficulties. Earnings for the full year, although substantially improved from 1979, were below expectations. Further changes to effect production improvements in 1981 are being implemented.

At Montreal, the newly constructed malthouse commenced production in mid-December, and at our plants across the country the installation of indirect heating and heat recovery systems is virtually completed. These major improvements to our facilities have been extremely costly, but are essential for the future viability of your Company.

We expect to recover the annual cost of indirect heating and heat recovery in our prices and in fuel savings, but we anticipate that 1981 earnings will be reduced as a result of interest and depreciation charges for the Montreal plant.

Production in 1981 is expected to continue at capacity levels.

1980 was a busy year for employees of your Company. There was an increase in workload for many due to the major capital projects. We record your Directors' sincere appreciation of the valuable contribution made by employees during the year.

On behalf of the Directors,

C.F. EDWARDS
President and
Chief Executive Officer.

March 3, 1981.

CANADA MALTING CO. LIMITED

and subsidiary company

CONSOLIDATED STATEMENT OF EARNINGS ($000)

	Year ended December 31	
	1980	1979
Net sales	$152,441	$118,922
Costs and expenses:		
Cost of products sold and all expenses except items shown below	139,302	107,442
Bank and other interest, less amounts capitalized (Notes 2 and 3)	1,961	504
Property rentals (Note 7)	655	614
Provision for depreciation	2,450	2,385
Provision for income taxes	3,357	3,192
	147,725	114,137
Net earnings before extraordinary item	4,716	4,785
Extraordinary item–		
Provision for loss on disposal of old Montreal malthouse, net of income tax reduction of $150,000	781	–
Net earnings for the year	$ 3,935	$ 4,785
Net earnings per share:		
Before extraordinary item	$5.38	$5.49
After extraordinary item	$4.49	$5.49

CONSOLIDATED STATEMENT OF RETAINED EARNINGS ($000)

	Year ended December 31	
	1980	1979
Balance at beginning of year as restated (Note 6)	$ 48,987	$ 45,589
Net earnings for the year	3,935	4,785
Amounts transferred from appraisal increase (Note 6)	785	182
	53,707	50,556
Deduct: Dividends on common shares– $1.80 per share in 1980 and 1979	1,579	1,569
Balance at end of year	$ 52,128	$ 48,987

CANADA MALT

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CONSOLIDATED BA

ASSETS

	December 31 1980	1979
CURRENT ASSETS:		
Cash	$ 2	$ 3
Accounts receivable	19,911	15,382
Income taxes recoverable	1,501	70
Inventories—		
Barley and malt	55,296	44,384
Operating supplies	579	650
Prepaid and other expenses	247	639
	77,536	61,128
OTHER ASSETS:		
Commodity Exchange Seats and Membership in Clearing Association, written down to $1	—	—
FIXED ASSETS:		
Buildings, plant and equipment	74,648	56,102
Less: Accumulated depreciation	29,701	30,031
	44,947	26,071
Construction in progress (Note 2)	14,833	6,238
Land	1,753	1,753
	61,533	34,062
	$139,069	$95,190

Approved by the Board:

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

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LANCE SHEET ($000)

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31 1980	1979
CURRENT LIABILITIES:		
Bank advances and bankers' acceptances (Note 3)	$ 36,034	$21,213
Accounts payable and accrued liabilities	16,472	11,514
Long-term debt payable within one year	100	100
	52,606	32,827
LONG-TERM DEBT:		
Term loan (Note 3)	20,000	–
Long-term debt of subsidiary– 8% first mortgage debentures payable $100,000 annually to 1983	200	300
DEFERRED INCOME TAXES (Note 4)	6,676	4,916
SHAREHOLDERS' EQUITY:		
Capital stock (Note 5)– Common shares without nominal or par value Issued and outstanding– 877,148 shares	5,395	5,311
Retained earnings (Note 6)	52,128	48,987
	57,523	54,298
Appraisal increase, less amounts transferred to retained earnings (Note 6)	2,064	2,849
	59,587	57,147
	$139,069	$95,190

CANADA MALTING CO. LIMITED

and subsidiary company

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION ($000)

	Year ended December 31 1980	1979
SOURCE OF WORKING CAPITAL:		
Net earnings for the year	$ 3,935	$ 4,785
Non-cash charges deducted in arriving at earnings –		
Provision for loss on disposal of old Montreal malthouse	931	–
Provision for depreciation	2,450	2,385
Deferred income taxes	5,210	796
Amortization of prepaid rent	–	417
Funds provided from operations	12,526	8,383
Issue of term loan	20,000	–
Shares issued under employees' stock option plan	84	67
	32,610	8,450
USE OF WORKING CAPITAL:		
Additions to fixed assets	30,852	7,690
Investment tax credits (Note 4)	3,450	–
Dividends on common shares	1,579	1,569
Reduction of long-term debt of subsidiary	100	100
	35,981	9,359
Resulting in a decrease in working capital of	(3,371)	(909)
Working capital at beginning of year	28,301	29,210
Working capital at end of year	$24,930	$28,301

TEN YEAR EARNINGS

	Net Earnings	Earnings per Common Share
1980	$4,715,894	5.38†
1979	4,785,278	5.49
1978	5,609,019	6.46
1977	3,656,027	4.22
1976	2,023,500	2.34†
1975	2,601,939	3.01
1974	4,157,741	4.81
1973	3,279,485	3.60*†
1972	2,835,768	3.13*
1971	2,630,422	2.89*

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1980

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 —

With the exception of the old Montreal malthouse, stated at its net realizable value, 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
Machinery and equipment	7.5% — 10.0% per annum
Automotive equipment	15.0% — 25.0% per annum

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

(d) Pensions —

Current service costs are charged to operations as they accrue. Unfunded past service costs, amounting to approximately $1,244,000 at December 31, 1980 (1979 — $1,355,000) are being amortized by annual payments through to 1993.

(e) 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. CONSTRUCTION IN PROGRESS:

Construction in progress consists of the following —

	December 31	
	1980	1979
Costs incurred	$15,451,275	$6,986,455
Interest expense capitalized	515,949	165,605
	15,967,224	7,152,060
Less:		
Grant receivable from the Department of Regional Economic Expansion	—	240,000
Investment tax credits	1,133,795	674,203
	1,133,795	914,203
	$14,833,429	$6,237,857

Construction in progress in 1980 consists of costs incurred to December 31, 1980 for indirect heating and heat recovery equipment at all of the plants. These costs will be transferred to buildings, plant and equipment effective January 1, 1981 and will be depreciated by the straight-line method at the rate of 10.0% per annum.

Construction in progress in 1979 consists of costs incurred to December 31, 1979 on the construction of a new malthouse in Montreal. The total costs incurred on this project, after deducting $669,000 for the grant receivable from the Department of Regional Economic Expansion and $2,147,225 for investment tax credits, were $20,930,356, of which $1,600,905 was interest expense capitalized. These costs were transferred to buildings, plant and equipment on December 16, 1980.

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 by 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 1980 was $493,479 (1979 — $36,000), of which $307,534 (1979 — $Nil) 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 $3,450,203 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 $3,450,203, $783,421 expires in 1984 and $2,666,782 expires in 1985.

5. COMMON SHARES:

Under the Articles of Continuance filed in 1978, the Corporation has the right to issue an unlimited number of common shares.

During the year the Corporation issued 3,780 shares for a cash consideration of $84,219 under The Employee Stock Option Plan which ended in 1980.

6. 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.

Commencing in 1980, the Corporation adopted the policy of transferring the appraisal increase to retained earnings in annual amounts representing the additional depreciation provided on the appraisal increase. The effect of this change, which was applied retroactively, was as follows:

	Retained earnings	Appraisal increase
Balance at December 31, 1978 as previously stated	$36,197,687	$12,422,438
Amounts transferred with respect to the years ended December 31, 1955 to December 31, 1978	9,391,734	(9,391,734)
Balance at December 31, 1978 as restated	$45,589,421	$ 3,030,704

Of the $785,126 transferred to retained earnings in 1980, $603,574 relates to the disposal of the old Montreal malthouse and $181,552 to the change in accounting policy.

This change in accounting policy has no effect on the net earnings of the Corporation.

7. 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 provided that such termination cannot be effective before October 31, 1985.

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 $613,652, payable on a quarterly basis.

8. 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 in 1980, export sales accounted for 40% and sales to shareholders, who account for their investment on the equity basis, 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.

9. 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, 1980, determined in accordance with the Quebec Securities Act, amounted to $37,000 (1979 — $36,000) and $413,000 (1979 — $375,000) respectively.

AUDITOR'S 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, 1980 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, 1980 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, after giving retroactive effect to the change in accounting policy for the appraisal increase as explained in Note 6 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, Ontario
March 3, 1981

PRICE WATERHOUSE & CO.
Chartered Accountants