CANADA MALTING CO.
LIMITED

ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 1979

CANADA MALTING CO. LIMITED

Board of Directors

NIGEL B. BAIRD	*W. DOUGLAS HATCH
CECIL F. EDWARDS	*JOHN P.G. KEMP
DOUGLAS W. ELLIOTT	*WALLACE F. READ
HARRY F. GRAESSER	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
CHARLES T. CLEGG	SECRETARY
GORDON J. CATER	TREASURER
DONALD W. McOUAT	ASSISTANT GENERAL MANAGER

Registered Office

TORONTO - ONTARIO

Malthouses and Elevators

MONTREAL, QUEBEC - - WINNIPEG, MANITOBA
TORONTO, ONTARIO - - CALGARY, ALBERTA
THUNDER BAY, ONTARIO

Transfer Agent

CANADA PERMANENT TRUST COMPANY

TORONTO, ONTARIO - - MONTREAL, QUEBEC
CALGARY, ALBERTA

Registrar

MONTREAL TRUST COMPANY

TORONTO, ONTARIO - - MONTREAL, QUEBEC
CALGARY, ALBERTA

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 1979

Your Directors present this report on the results of the Corporation's consolidated operations for the 1979 fiscal year.

Consolidated net earnings were \$4.8 million, or \$5.49 per common share, compared to \$5.6 million and \$6.46 in 1978.

Export margins were less favorable in 1979 than 1978, while operating costs were higher. Our malting plants continued to operate at capacity, and shipments were slightly higher than in 1978.

Leaver Mushrooms Co. Limited experienced another unsatisfactory year as a result of production difficulties. Changes have been made, and while we cannot yet be certain that the problems have been solved, current results show improvement. Continuing careful attention is being given to the operations of this Company.

Two major capital projects are presently underway: construction of the new malt processing plant at Montreal and installation of indirect heating and heat recovery systems at all malting plants. Completion of both projects is scheduled by the end of 1980, at a total cost of approximately \$38 million.

The change to indirect heating is necessary to meet customers' requirements, while heat recovery equipment will result in savings in the capital cost of the indirect heating system and in fuel consumption.

With regret, we record the death of Mr. Gordon McMillan, Q.C. in March, 1979. Mr. McMillan, a partner in the law firm of McMillan, Binch, was a Director of Canada Malting Co. Limited from 1946 to 1974 and an Honorary Director from 1974 until his death.

In March 1980, Mr. H.F. Graesser and Mr. N.B. Baird retired as Directors of the Company. In appreciation of their long and distinguished service, the Board has designated them Directors Emeriti.

The Board is fortunate that Mr. John W. Adams, President of Emco Limited, and Mr. Robert Després, President of Netcom Inc., have accepted appointments to the Board to replace the two retiring Directors.

On the basis of export sales contracts made to date, and forecasts of requirements by our Canadian customers, we expect to maintain malt shipments in 1980 at about the same level as in 1979.

Your Directors express their appreciation of the important contribution made by the Company's employees during the year.

On behalf of the Directors,

C.F. EDWARDS
President and
Chief Executive Officer.

CANADA MALTING CO. LIMITED

and subsidiary company

CONSOLIDATED STATEMENT OF EARNINGS

	Year ended December 31 1979	1978
Net sales	$118,922,372	$106,664,062
Costs and expenses:		
Cost of products sold and all expenses except items shown below	107,441,584	93,777,877
Interest on long-term debt	36,000	44,000
Bank and other interest, less amounts capitalized (Note 3)	468,095	535,042
Property rentals	613,886	594,883
Provision for depreciation	2,385,145	2,300,241
Provision for income taxes	3,192,384	3,803,000
	114,137,094	101,055,043
Net earnings for the year	$ 4,785,278	$ 5,609,019
Net earnings per share	$5.49	$6.46

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31 1979	1978
Balance at beginning of year	$ 36,197,687	$ 32,152,920
Net earnings for the year	4,785,278	5,609,019
	40,982,965	37,761,939
Deduct: Dividends on common shares – $1.80 per share in 1979 and 1978	1,569,079	1,564,252
Balance at end of year	$ 39,413,886	$ 36,197,687

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ASSETS

	December 31 1979	1978
CURRENT ASSETS:		
Cash	$ 2,700	$ 33,653
Accounts receivable	15,381,659	14,242,716
Income taxes recoverable	70,100	–
Inventories –		
Barley and malt	44,384,387	32,242,904
Operating supplies	650,275	560,353
Prepaid rent and other expenses (Note 2)	639,353	788,583
	61,128,474	47,868,209
OTHER ASSETS:		
Prepaid rent	–	417,355
Commodity Exchange Seats and Membership in Clearing Association, less amounts written off	1	1
	1	417,356
FIXED ASSETS:		
Buildings, plant and equipment	56,101,793	54,750,970
Less: Accumulated depreciation	30,031,109	27,747,780
	26,070,684	27,003,190
Construction in progress (Note 3)	6,237,857	–
Land	1,753,344	1,753,344
	34,061,885	28,756,534
	$95,190,360	$77,042,099

Approved by the Board:

R.J. THOMAS, *Director*
C.F. EDWARDS, *Director*

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ALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31 1979	1978
CURRENT LIABILITIES:		
Bank advances and bankers' acceptances (Note 4)	$21,213,269	$ 8,081,336
Accounts payable and accrued liabilities	11,514,091	8,345,721
Long-term debt payable within one year	100,000	100,000
Taxes on income	–	2,131,212
	32,827,360	18,658,269
LONG-TERM DEBT OF SUBSIDIARY:		
8% first mortgage debentures payable $100,000 annually 1981 to 1983	300,000	400,000
DEFERRED INCOME TAXES	4,915,797	4,120,000
SHAREHOLDERS' EQUITY:		
Capital stock (Note 5) –		
Common shares without nominal or par value		
Issued and outstanding –		
873,368 shares	5,310,879	5,243,705
Retained earnings	39,413,886	36,197,687
	44,724,765	41,441,392
Excess of appraised value of fixed assets over depreciated book value on February 28, 1955	12,422,438	12,422,438
	57,147,203	53,863,830
	$95,190,360	$77,042,099

CANADA MALTING CO. LIMITED

and subsidiary company

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31 1979	1978
SOURCE OF WORKING CAPITAL:		
Net earnings for the year	$ 4,785,278	$ 5,609,019
Non-cash charges deducted in arriving at earnings –		
Provision for depreciation	2,385,145	2,300,241
Deferred income taxes	795,797	382,000
Amortization of prepaid rent	417,355	500,826
Funds provided from operations	8,383,575	8,792,086
Shares issued under employees' stock option plan	67,174	66,171
	8,450,749	8,858,257
USE OF WORKING CAPITAL:		
Additions to fixed assets	7,690,496	2,359,805
Dividends on common shares	1,569,079	1,564,252
Reduction of long-term debt	100,000	100,000
	9,359,575	4,024,057
Resulting in an increase (decrease) in working capital of	(908,826)	4,834,200
Working capital at beginning of year	29,209,940	24,375,740
Working capital at end of year	$28,301,114	$29,209,940

TEN YEAR EARNINGS

	Net Earnings	Earnings per Common Share
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*
1970	2,107,042	2.28*

*After providing for dividends on preferred shares.

† Excluding extraordinary item.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1979

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
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 the project. Government grants and investment tax credits relating to the project are deducted from the cost of the project.

(d) Income taxes –

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

(e) Pensions –

Current service costs are charged to operations as they accrue. Unfunded past service costs, amounting to approximately $1,355,000 at December 31, 1979 (1978 – $1,443,000) 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. 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 after October 31, 1980, 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.

Part of the compensation received for the expropriated property was prepaid rent due under the lease to October 31, 1980; at December 31, 1979, prepaid rent for the period January 1, 1980 to October 31, 1980 amounted to $417,355. The annual rent for the balance of the lease period, November 1, 1980 to November 30, 1987, is $613,652, payable on a quarterly basis.

3. CONSTRUCTION IN PROGRESS:

Construction in progress consists of the following:

Costs incurred during the year	$6,986,455
Interest expense capitalized	165,605
	$7,152,060
Less:	
Grant receivable from the Department of Regional Economic Expansion	240,000
Investment tax credits	674,203
	914,203
	$6,237,857

4. BANK ADVANCES AND BANKERS' ACCEPTANCES:

Bank advances and bankers' acceptances are secured by a general assignment of accounts receivable and a pledge of inventories under Section 88 of the Bank Act.

5. COMMON SHARES:

The Employee Stock Option Plan, ratified by shareholders at the Annual Meeting on April 24, 1975, authorized the granting of options on 20,000 common shares at prices not less than 90% of the market price on the day immediately preceding the date of grant. Of these, 17,000 had been granted to December 31, 1979. The options are exercisable in instalments during a period of not more than five years from date of grant. During the year ended December 31, 1979 no further options were granted, existing options on 3,015 shares were exercised for a cash consideration of $67,174, and existing options on 300 shares lapsed on retirement of employees. At December 31, 1979 options to purchase 4,080 shares at $22.28 per share were outstanding, including options for 1,470 shares held by five officers, two of whom are also directors.

As at December 31, 1978, the Corporation had Class A and Class B common shares. These shares were interconvertible on a share-for-share basis. The rights of each class are identical and both classes of shares ranked equally as to dividends.

In 1979, the Corporation reclassified all of its issued and outstanding Class A and Class B shares as a single class of common shares.

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

Changes in the share capital of the Corporation during the year were as follows:

Shares issued and outstanding at beginning of year –	
Class A	745,006
Class B	125,347
	870,353
Shares issued on exercise of options	3,015
Shares issued and outstanding at end of year	873,368

6. COMMITMENTS:

In 1978, the Board of Directors approved a plan to construct a new malthouse in Montreal. The estimated total cost of this project is $20,124,000 of which $6,986,455 has been incurred to December 31, 1979.

In 1979, the Board of Directors approved a plan to remodel the malt drying systems at all plants for an estimated cost of $18,000,000.

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, 1979, determined in accordance with the Quebec Securities Act, amounted to $36,000 (1978 – $29,000) and $375,000 (1978 – $371,000) respectively.

AUDITORS' REPORT

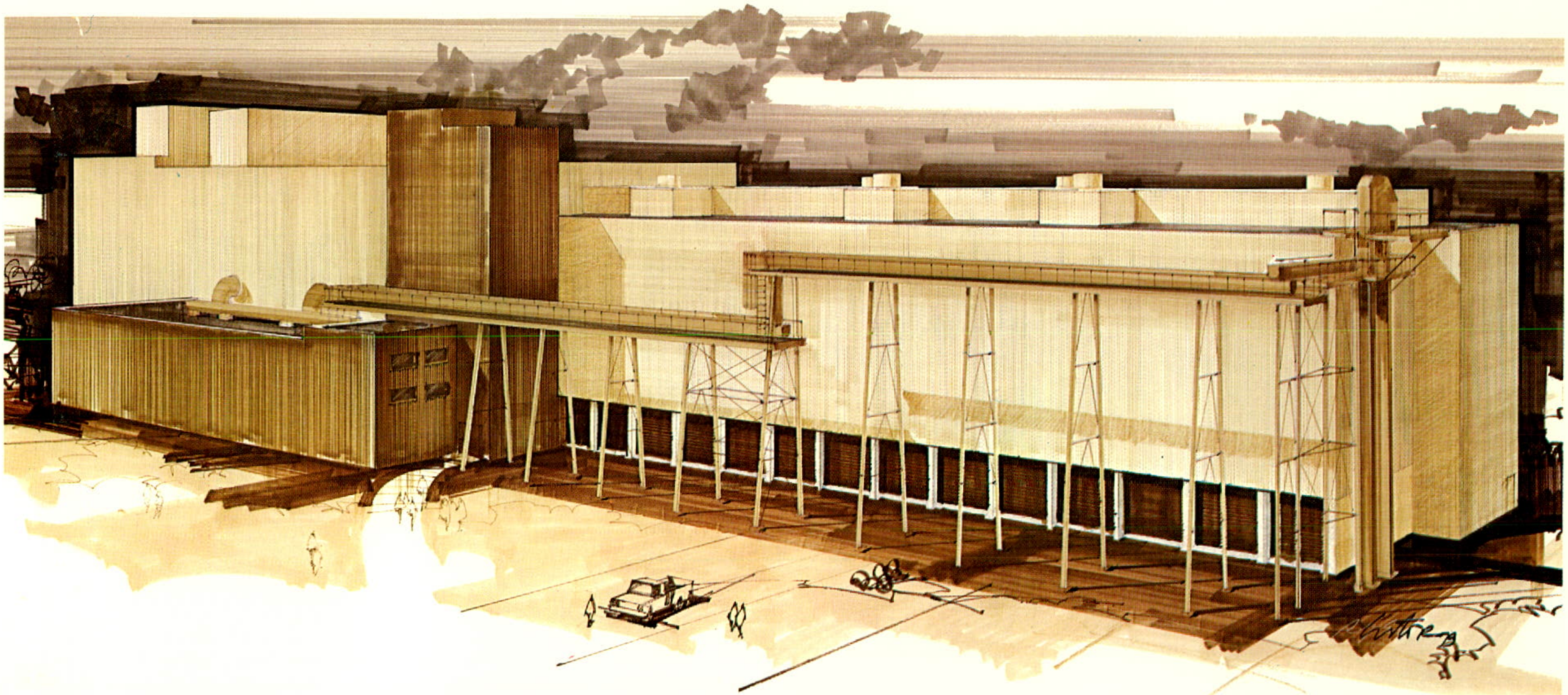
To the Shareholders of
Canada Malting Co. Limited:

We have examined the consolidated balance sheet of Canada Malting Co. Limited as at December 31, 1979 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, 1979 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
February 26, 1980

PRICE WATERHOUSE & CO.
Chartered Accountants



ARCHITECT'S DRAWING OF THE NEW MALTHOUSE IN MONTREAL, PRESENTLY UNDER CONSTRUCTION AND SCHEDULED FOR COMPLETION IN LATE 1980.

LEAVER MUSHROOMS

Fresh Packed in Canada

Canned . . .

Whole
Sliced
Creamed
Pieces and Stems