CANADA MALTING CO.
LIMITED

ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 1973

CANADA MALTING CO., LIMITED

Board of Directors

DOUGLAS W. AMBRIDGE, C.B.E., B.Sc.	LEONARD G. LUMBERS
NIGEL B. BAIRD	RALPH B. McDONALD
STANTON J. BURKETT	GORDON McMILLAN, Q.C.
HARRY F. GRAESSER	GEORGE H. SELLERS
W. DOUGLAS HATCH	REGINALD J. THOMAS

Officers

HARRY F. GRAESSER	PRESIDENT AND CHIEF EXECUTIVE OFFICER
REGINALD J. THOMAS	VICE-PRESIDENT FINANCE AND SECRETARY
STANTON J. BURKETT	VICE-PRESIDENT SALES
WALTER W. COMBER	TREASURER

Head 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 FISCAL YEAR ENDED DECEMBER 31, 1973

Several events occurred in 1973, all beyond the Company's control, which to some degree affected the operations for the year, but their full impact will not be felt until succeeding years. The unprecedented increase in the price of barley and related changes in the Federal Government's grains policy, substantially higher interest rates, the expropriation of our Toronto, Bathurst Street, plant and Head Office building, and the Middle East oil embargo have all had an effect and will be referred to later in this report.

Consolidated net earnings, before the extraordinary item resulting from the expropriation, amounted to $3,279,485 equivalent, after allowing for preferred dividends, to $3.60 per share, compared with $2,835,768 equivalent to $3.13 per share for the previous year. Including the extraordinary gain, earnings for 1973 were $6,152,505 or $6.93 per share.

Malt shipments in 1973 were a record for the Company, being approximately 7% higher than the previous year. Of the total, export shipments accounted for the greater increase, being approximately 12% higher, and was partly due to orders placed in advance for supplies greatly in excess of customers' normal requirements to guard against possible shortage of shipping space arising from the oil shortage.

The full impact of increased barley prices was not felt in 1973 since the major portion of our requirements was purchased in the late summer and early fall of the preceding year at prices ranging from $1.25 to $1.77 per bushel at the Lakehead, including premiums. By comparison, the opening price for the 1973 crop – on which 1974 sales are based – was set by the Canadian Wheat Board at $3.38 per bushel. As a consequence, bank loans as shown on the balance sheet have more than doubled over the previous year at greatly increased rates of interest.

The initial price determined by the Wheat Board for malting barley from the 1973 crop was much higher than European prices and seriously endangered the Company's export prospects for 1974, since many of our traditional customers purchased their supplies from Europe at these lower prices. Subsequently, the price of malting barley was reduced and the Company has been able to make substantial sales, but still far short of the record achieved in 1973; whether or not we can equal last year's export sales depends on the relationship of Canadian barley prices to world markets in the months ahead.

As previously reported, the Company received an interim payment of $5,405,000 from the Federal Government as compensation for the expropriation of its Toronto, Bathurst Street, property, but negotiations are continuing with a view to obtaining a more equitable amount. Arrangements will shortly be concluded to lease back the property for a four year period and we are actively seeking a suitable site for relocation. We estimate that the total cost of a new malt plant, storage and handling facilities and offices will be in excess of $14,000,000. The excess of the compensation over book value of the amount pertaining to land and buildings, less provision for applicable income taxes, has been shown as an extraordinary gain in the accounts. The amount received has temporarily been applied against bank borrowings, resulting in a decrease of interest charges approximating $153,000 for the period under review.

Consolidated capital expenditures during the year totalled $4,557,595, principally for the construction of additional malting capacity at Calgary, which is scheduled to go into production during the month of March, 1974.

Our associate company, Hugh Baird & Sons Limited, showed a lower profit for the year ended July 31, 1973, however, their dividend rate was maintained. It is anticipated that their profits for the first six months of the current fiscal year will show a considerable improvement over the same period last year. Earnings of our subsidiary, Leaver Mushrooms Co., Limited, continue to be adversely affected by increasing production costs and competition from imports. Representations have been made to the Federal Government by the Canadian Mushroom Growers Association and it is expected that the situation will be relieved to some extent during the current year.

Dividends of 30 cents per share were paid on March 15 and 35 cents per share each quarter thereafter on the Class A (original) common shares. Such dividends are taxable in shareholders' hands in the normal way and are subject to the rule under which a dividend tax credit may be claimed. Commencing with the September 15 payment, shareholders who elected to convert their shares into Class B common shares received a tax free dividend of 29¾ cents per share. The latter are paid out of tax paid undistributed surplus after a 15 per cent tax has already been paid by the Company on the dividends and the net amount received must be applied to reduce the cost of the shares for capital gains tax purposes.

It is with deep regret that we record the death of Mr. Eric S. Clarke in November of last year. Mr. Clarke was for many years President and Chief Executive Officer of the Company and a member of the Board from 1927 until the time of his death. His dedication and outstanding contribution to the Company is gratefully acknowledged by your Directors and all employees.

The resignation of Mr. Gordon McMillan has been regretfully accepted by the Board, to become effective April 25, 1974. Mr. McMillan is the Company's solicitor and has served on the Board for twenty-eight years. In recognition of his valuable contribution and in order to retain the benefit of his broad experience, it is proposed to nominate him an Honorary Director.

Over the years, one of the great strengths of the Company has been the dedication of its employees to the service of its customers in all of its forms. In a year beset with unusual problems in most of the Company's activities, the Directors express their appreciation and thanks to all employees for their cooperation in meeting the demands placed upon them.

On behalf of the Directors,

HARRY F. GRAESSER,
President.

CANADA MALTING CO., LIMITED

and subsidiary company

CONSOLIDATED STATEMENT OF EARNINGS

	Year ended December 31	
	1973	1972
Net sales	$63,365,732	$49,052,645
Costs and expenses:		
Cost of products sold and all expenses except items shown below	54,186,081	40,991,919
Interest on debentures	82,323	92,000
Bank and other interest (Note 5)	934,143	376,335
Provision for depreciation	1,898,765	1,643,541
Amortization of leasehold interests	33,028	48,825
Provision for income taxes	2,952,000	3,022,800
	60,086,340	46,175,420
Earnings from operations	3,279,392	2,877,225
Dividend income (Note 2)	66,662	96,005
Earnings before minority interest and extraordinary item	3,346,054	2,973,230
Minority interest in earnings of subsidiary	66,569	137,462
Earnings before extraordinary item	3,279,485	2,835,768
Gain on expropriation of property, less estimated income taxes of $450,000 (Note 3)	2,873,020	–
Net earnings for the year	$ 6,152,505	$ 2,835,768
Earnings per share after preferred dividends:		
Before extraordinary item	$3.60	$3.13
Extraordinary item	3.33	–
	$6.93	$3.13

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	1973	1972
Balance at beginning of year	$12,913,420	$11,248,645
Net earnings for the year	6,152,505	2,835,768
	19,065,925	14,084,413
DEDUCT:		
Dividends on Series B preferred shares (Note 6)	167,910	134,328
Dividends on common shares:		
Former common shares (1973 – 65¢ per share; 1972 – $1.20 per share)	561,527	1,036,665
Class A shares (1973 – 70¢ per share)	533,856	–
Class B shares (1973 – 59.5¢ per share)	60,236	–
Tax paid on undistributed income	10,630	–
	1,334,159	1,170,993
Balance at end of year (Note 8)	$17,731,766	$12,913,420

ASSETS

	December 31 1973	December 31 1972
CURRENT ASSETS:		
Cash	$ 318,263	$ 72,291
Short term investments, at cost which approximates market	300,000	–
Accounts receivable	9,635,309	4,977,024
Inventories-		
Malt, barley, etc. at the lower of cost and net realizable value	33,760,746	17,458,131
Operating supplies, at not in excess of cost	392,122	318,539
Prepaid expenses	164,080	148,906
	44,570,520	22,974,891
OTHER ASSETS:		
Investment in shares of Hugh Baird & Sons, Limited (50% owned), at cost (Note 2)	2,499,484	2,499,484
Grain Exchange Seats and Memberships in Clearing Association, less amounts written off	1	1
	2,499,485	2,499,485
FIXED ASSETS, as appraised in 1955 with subsequent additions at cost (Note 3):		
Buildings, plant and equipment	44,985,523	43,049,855
Less: Accumulated depreciation	18,992,692	18,311,906
	25,992,831	24,737,949
Land	1,709,991	1,683,024
Leasehold interests, less amortization of $179,502 (1972 – $146,475)	51,698	84,725
	27,754,520	26,505,698
	$74,824,525	$51,980,074

Approved on behalf of the Board:

HARRY F. GRAESSER, *Director*

REGINALD J. THOMAS, *Director*

G CO., LIMITED
company

ALANCE SHEET

LIABILITIES

		December 31 1973	December 31 1972
CURRENT LIABILITIES:			
Bank advances and bankers' acceptances (Note 4)		$23,751,032	$10,329,396
Accounts payable and accrued		7,388,771	2,869,622
8% first mortgage debentures payable within one year		100,000	100,000
Taxes on income		490,578	119,033
		31,730,381	13,418,051
LONG TERM DEBT:			
8% first mortgage debentures of subsidiary payable $100,000 annually 1975 to 1983		900,000	1,000,000
DEFERRED EXPROPRIATION COMPENSATION (Note 3)		705,000	–
DEFERRED INCOME TAXES		2,663,300	1,382,300
MINORITY INTEREST IN SUBSIDIARY		1,165,737	1,099,168
SHAREHOLDERS' EQUITY:			
Capital stock (Note 7)			
Authorized			
Preferred shares of a par value of $1 each, issuable in series	7,761,206 shares		
Common shares without nominal or par value			
Class A	2,000,000 shares		
Class B	1,500,000 shares		
Issued and outstanding –			
6% cumulative redeemable Series B preferred shares	2,238,794 shares	–	2,238,794
Common shares			
Class A	752,409 shares		
Class B	111,479 shares		
	863,888 shares	5,099,665	5,099,665
Retained earnings (Note 8)		17,731,766	12,913,420
		22,831,431	20,251,879
Excess of appraisal value of fixed assets over depreciated book value on February 28, 1955		14,828,676	14,828,676
		37,660,107	35,080,555
		$74,824,525	$51,980,074

CANADA MALTING CO., LIMITED

and subsidiary company

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year ended December 31	
	1973	1972
Source of funds:		
Earnings before extraordinary item	$ 3,279,485	$ 2,835,768
Charges against earnings not affecting cash outlay –		
Provision for depreciation	1,898,765	1,643,541
Amortization of leasehold interests	33,028	48,825
Deferred income taxes	831,000	582,800
Minority interest in earnings of subsidiary	66,569	137,462
Funds provided from operations	6,108,847	5,248,396
Interim payment on compensation for expropriation of Toronto Bathurst Street property (Note 3)	5,405,000	–
	11,513,847	5,248,396
Application of funds:		
Additions to fixed assets (net)	4,557,595	3,592,454
Redemption of Series B preferred shares	2,238,794	–
Dividends on Series B preferred shares (note 6)	167,910	134,328
Dividends on common shares	1,155,619	1,036,665
Tax paid on undistributed income	10,630	–
First mortgage debentures payable within one year	100,000	100,000
	8,230,548	4,863,447
Resulting in an increase in working capital of	3,283,299	384,949
Working capital at beginning of year	9,556,840	9,171,891
Working capital at end of year	$12,840,139	$ 9,556,840

FIVE YEAR EARNINGS

	Net Earnings	Earnings per Common Share
1969	2,082,970	2.25*
1970	2,107,042	2.28*
1971	2,630,422	2.89*
1972	2,835,768	3.13*
1973	3,279,485	3.60*†

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1973

1. The consolidated financial statements include the accounts of Leaver Mushrooms Co. Limited, a 60% owned subsidiary.

2. The Company's equity in the earnings of Hugh Baird & Sons, Limited (50% owned) amounted to $142,262 for its fiscal year ended July 31, 1973 and dividends of $66,662 were received during 1973; the corresponding figures for 1972 were equity in earnings of $276,340 and dividends received of $96,005. Since date of acquisition of the investment in Hugh Baird & Sons, Limited the Company's accumulated equity in its undistributed earnings amounts to $536,641.

   Accounts receivable include an amount due from Hugh Baird & Sons, Limited of $879,614 (1972 – $358,396) arising in the ordinary course of business.

   The equity method of accounting, whereby an investment is carried at cost plus equity in undistributed earnings since date of acquisition and the equity in annual earnings is included in the investor's earnings, has not been applied to the Company's investment in Hugh Baird & Sons, Limited since it appears unlikely that under existing conditions the equity in the undistributed earnings of Hugh Baird & Sons, Limited will accrue to the Company.

3. During 1973 the Company received an interim payment of $5,405,000 from the Federal Government on compensation for the expropriation of its Toronto Bathurst Street property, comprising $4,700,000 for land and buildings and $705,000 for disturbance costs. The excess of the payment for land and buildings over the depreciated book value of these assets has been recorded as an extraordinary gain, after estimated income taxes, and the payment for disturbance costs has been carried forward to be applied against such costs as incurred. Negotiations are continuing with a view to obtaining additional compensation for the buildings and for the substantial amount by which the costs to be incurred in relocating the plant and offices are expected to exceed the interim payment for disturbance costs.

   It is estimated that capital expenditures in excess of $14 million will be required to construct a new plant with substantially the same facilities as the expropriated property. Pending completion of construction, and transfer of operations, the Company has entered into arrangements with the Federal Government to lease the Toronto Bathurst Street property until November 30, 1977 at an annual rental of $1 with the Company to be responsible for insurance and other carrying costs.

4. 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. The interim payment of $5,405,000 received as compensation for the expropriated Toronto Bathurst Street property was applied in reduction of bank loans. As a result bank interest expense for 1973 was decreased by $153,000.

6. Dividends on the 6% cumulative redeemable Series B preferred shares were payable annually. Such an annual dividend in the amount of $134,328 was paid on March 15, 1973, and, in addition, in 1973 accrued dividends of $33,582 were paid on such shares to date of redemption.

7. The issued and outstanding 2,238,794 6% cumulative redeemable Series B preferred shares were redeemed in 1973 at par value plus dividends accrued to date of redemption and the authorized preferred shares were reduced by a corresponding amount.

   The common share capital was changed, as approved by the Shareholders on April 26, 1973 and confirmed by supplementary letters patent issued June 28, 1973, to reclassify the 1,200,000 shares of previously authorized common shares as Class A convertible common shares without nominal or par value and increase the authorized capital of the Company by an additional 800,000 Class A shares and by 1,500,000 Class B convertible common shares without nominal or par value.

   Class A and Class B shares are inter-convertible on a share-for-share basis and the rights of each class are identical to the previous common shares. Both classes of shares rank equal as to dividends but the Directors may elect to declare and pay a dividend on the Class B shares out of tax-paid undistributed surplus on hand, or out of 1971 capital surplus on hand, provided that a cash dividend is declared and paid on the Class A shares in an amount equal to the sum of the cash dividend on the Class B shares plus the tax paid to create the tax-paid undistributed surplus. Changes in the common share capital of the Company during the year were as follows:

	Convertible Common		Common
	Class A	Class B	
Shares issued and outstanding at beginning of year	–	–	863,888
Common shares reclassified as Class A	863,888	–	(863,888)
Class A shares converted into Class B	(111,479)	111,479	–
Shares issued and outstanding at end of year	752,409	111,479	–

8. Retained earnings at December 31, 1973 include $2,080,646 designated as capital surplus under Section 61 of the Canada Corporations Act, arising from the redemption and cancellation of 1,727,776 Series A preferred shares in 1969 and the purchase and cancellation of 352,870 Series B preferred shares during 1970 and prior years.

9. The unfunded obligation for past service on the Company's pension plan of approximately $1,816,732 is being amortized by annual payments through to 1989.

10. It is expected that capital expenditures in 1974 will amount to approximately $1,500,000.

11. The remuneration of ten directors amounted to $20,000 (1972 - $14,000) and the remuneration of five officers amounted to $184,559 (1972 – $179,109). Four of the officers are also directors of the Company.

AUDITORS' REPORT

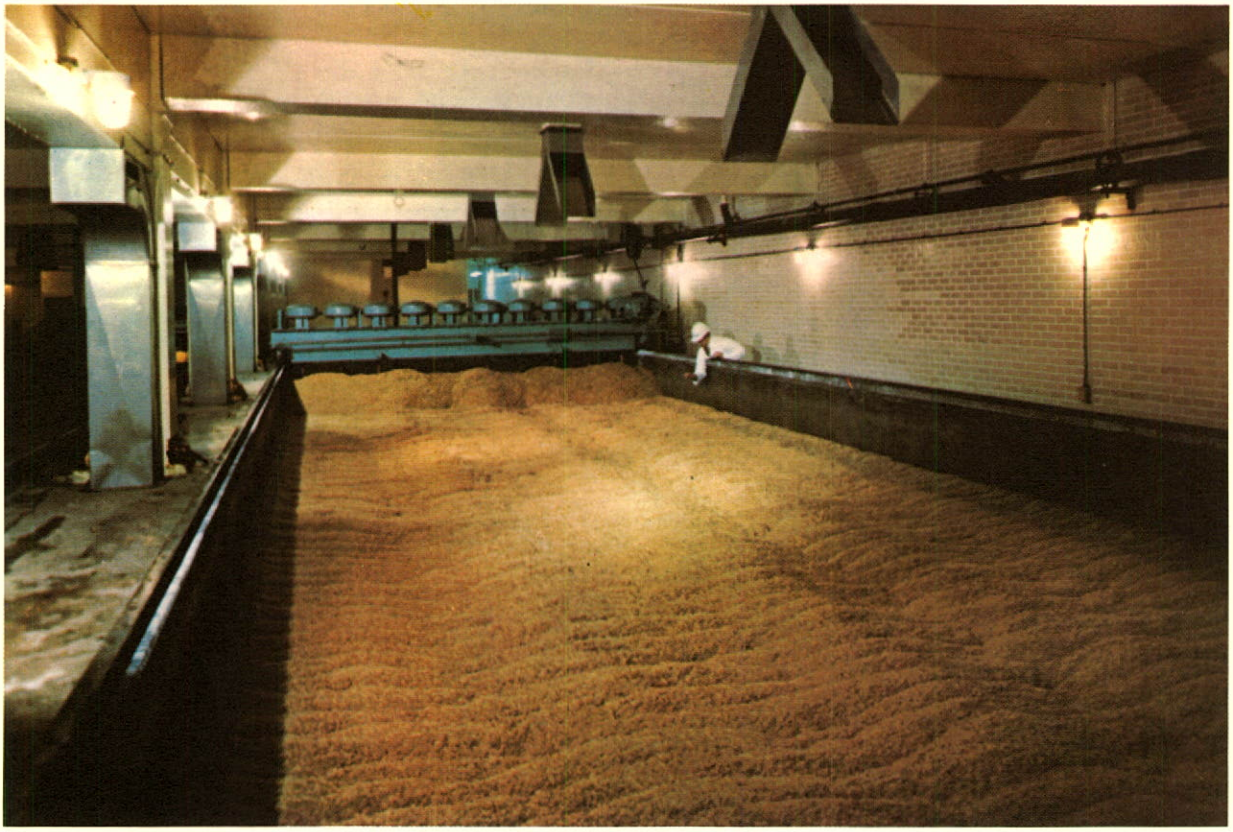
To the Shareholders of
Canada Malting Co., Limited:

We have examined the consolidated balance sheet of Canada Malting Co., Limited and its subsidiary company as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants.

Toronto, Ontario
February 27, 1974



Upper: View of barley sprouting in an air conditioned compartment showing machine in background used for mixing and levelling grain to ensure uniform treatment.

Lower: View of sprouted barley from compartment being loaded onto drying kiln for completion of the malting process, with mixing and levelling machine in background.