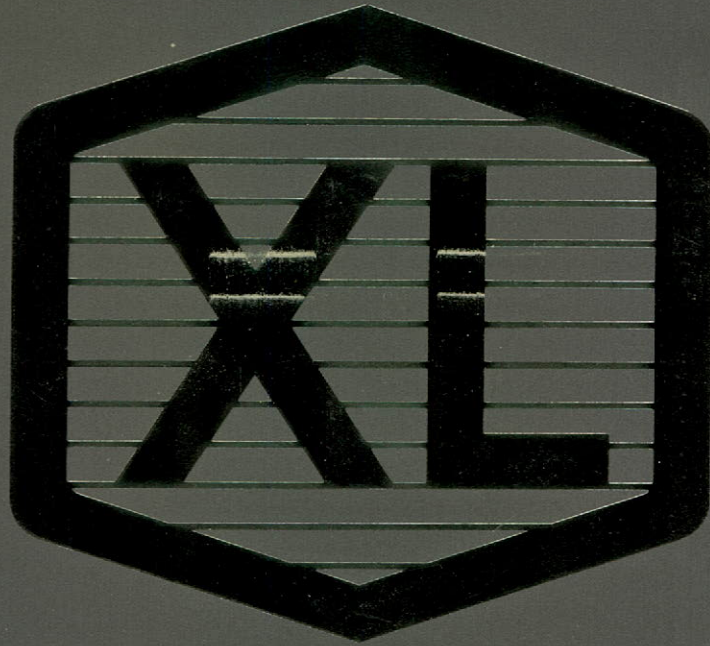
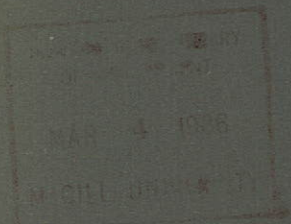


*L.K.
Resources Ltd.*

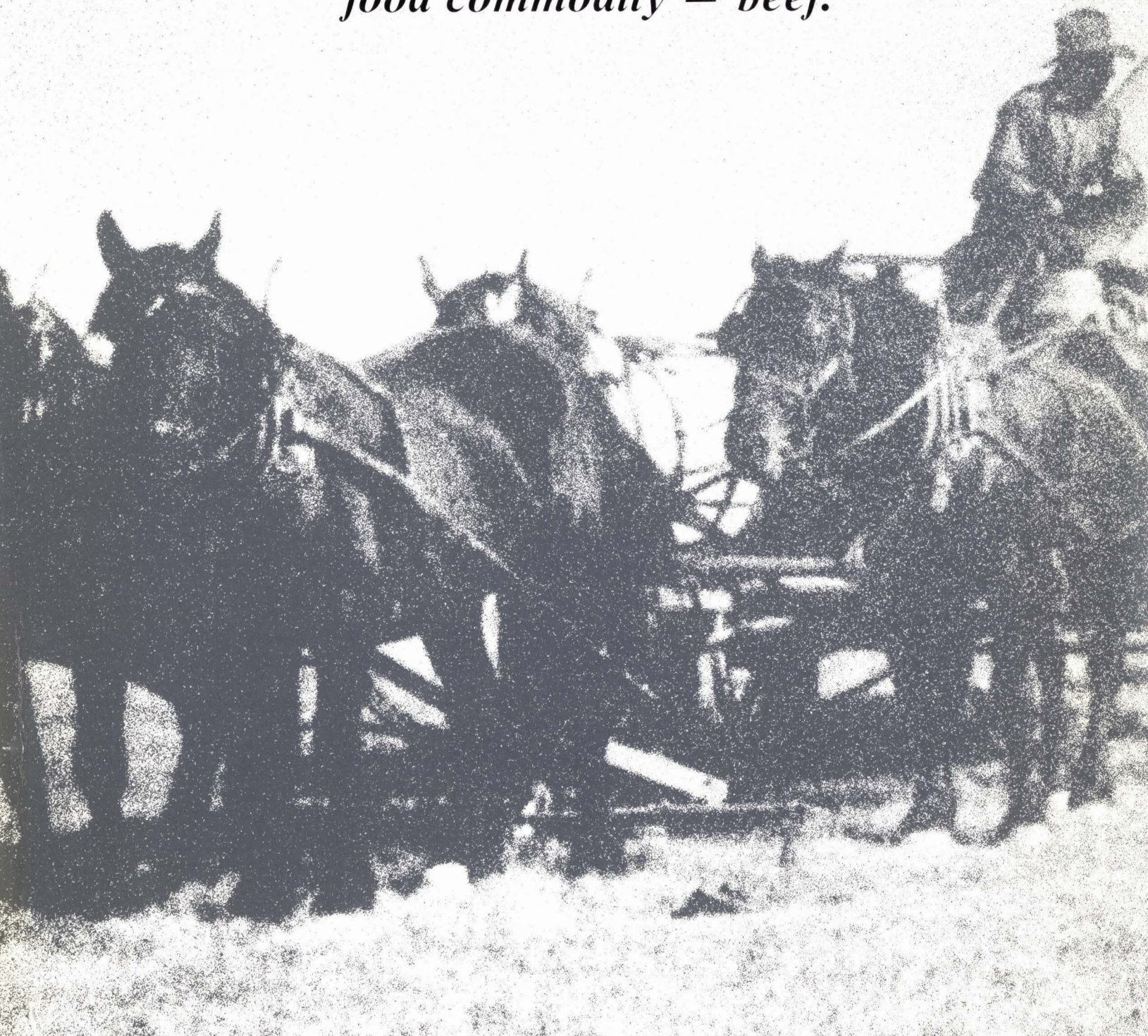
*1985
Annual Report*



*the
Brand of Excellence*



*L.K. Resources Ltd.
is a corporation built
on 100 years of
history and expertise in the
production of
Alberta's primary
food commodity — beef.*

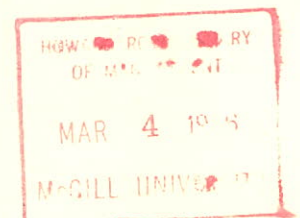


Over our 100 year history, L.K. Resources Ltd. evolved from one of Alberta's early homesteads into the province's largest, locally-based producer of beef and beef products. The corporation has a ranching base that represents one of the large land spreads in the province, a cow herd and calf production operation, a calflot and feedlot, slaughtering facilities and a marketing network capable of distributing L.K. products to all parts of Canada and selected export markets.

Innovation and expertise have characterized this 100 years of growth. We have become recognized as a leader in the technology of ranching and beef production. We have been on the forefront of new developments in many facets of our business — from forage production to genetics. The expertise of our management is not only recognized in Canada, but delegations from a number of foreign countries have visited our unique, integrated operation.

Recently, we embarked on a new phase in our evolution. Recognizing that our marketing expertise and production capabilities are now exclusive to beef products, we began examining other food products which would benefit from the exposure to broader markets and modern management techniques.

The change in the corporate name to XL Food Systems Ltd. was selected after careful consideration. The name not only maintains a strong connection with the Company's past — the XL brand being the first used on L.K. ranch cattle — but it also speaks of the corporate standard of quality in producing only products that "excel". This new name will always appear with the words, *XL — The Brand Of Excellence*.





Agricultural Operations



Three land spreads totalling 77,000 acres form the ranching and farming base of this integrated operation.

As one of the first to introduce centre pivot irrigation to southern Alberta, L.K. Ranches now has close to 2,000 acres under irrigation.

The Company has three farm and ranching operations, all located near Bassano, Alberta. These include: L.K. Ranches, which encompasses three land spreads totalling 77,000 acres of deeded and crown lease lands; XL Custom Feeding, a cattle backgrounding and fattening operation; and XL Feeds Ltd., the supplier of rations for the Company's feedlot ranching operations and other customers.

Each of these divisions is operated as a separate profit centre utilizing the most up-to-date technology. L.K. Ranches runs a cow herd of approximately 1,500 cows using a cross-breeding program to maximize weaning weights and rate-of-gain efficiency. This profit centre also includes a dryland farming operation producing wheat and barley. Approximately 2,000 acres of irrigated land, utilizing centre-pivot sprinklers produce forage for company livestock and the backgrounding lot.



XL Custom Feeding operates two feedlots where a total capacity of 25,000 head of cattle can be brought to prime processing weight.



XL Feeds' 1,000-ton per week capacity feed mill produces a variety of livestock feeds for primarily the local market.

XL Custom Feeding operates a 10,000-head backgrounding lot in which calves and light feeders are grown to approximately 800 pounds before being transferred to a 15,000-head finishing lot in which the cattle are fattened for slaughter.

The agricultural industry of North America continues to evolve through seasonal, cyclical and structural changes. While 1984-1985 saw unusual drought conditions in the Company's farming operations and continued depressed calf and cow prices, the quality of the Company's products continued to excel. Average weaning weights and gainability of L.K.'s calves were at an all-time high.

As the Company prepares for the 1990s, the emphasis will be towards the feedlot finishing operations necessary for assured cattle slaughtering supplies in processing value-added beef. Calf raising and grain production will be done only as economic to support beef production.



Beef Processing Operations

One of the largest Alberta-based processors, XL has three beef processing plants utilizing state-of-the-art technology and equipment.



The boxed beef plant has a throughput capacity of up to 7,200 head per week in 1986.

The Company owns three beef processing plants, all in Calgary. The XL Beef slaughtering plant processes fed cattle for the wholesale carcass market and the Company's boxed beef plant, where carcasses are further converted into vacuum-packed sub-primals for the retail and food service trades. The Bonnybrook boning plant produces boneless beef for the retail ground beef market and further processing customers.

While the operation of each of these plants is quite different, they do have a number of characteristics in common. The employees at all plants are non-unionized and have a level of productivity that is unmatched in the industry. All plants utilize state-of-the-art equipment and technology, which ensures a high degree of efficiency and competitiveness. Management is provided by a team of highly competent, young, aggressive personnel.

XL Beef's slaughtering plant is Canada's largest one-shift facility presently capable of producing over 5,000 head per week. The boxed beef plant is the most modern in Canada with a throughput capacity in 1986 of up to 7,200 head per week.



Increased demand from the retail, hotel and restaurant industry for XL beef resulted in operations running at full capacity during the year.



Beef subprimals are vacuum packaged for shipping using a cryovac system that is the only one of its kind in Canada.

The beef industry continues through a period of rationalization towards optimum efficiencies. The healthy companies have progressed while the inefficient have closed their doors. As part of this progress, XL Beef entered into a joint venture in 1985 with Centennial Packers whereby the two companies' slaughtering facilities were operated on a joint management basis for overall improved efficiencies.

Other opportunities exist for the Company to move forward in improved marketing and greater efficiencies:

- ✓ *merchandising emphasis on Alberta beef particularly in Ontario and eastern Canadian markets.*
- ✓ *new improved packaging and marketing of beef livers, tongues, and oxtails.*
- ✓ *concerted efforts to export lean Alberta beef products to the United States and the Pacific Rim countries.*
- ✓ *improved by-product recovery through further investment in slaughter facilities.*



Marketing

Alberta produces and slaughters approximately 40 per cent of Canada's entire beef requirements. The province possesses natural competitive advantages for beef production: plenty of range land, ample supplies of silage and grain, a pool of skilled cattlemen and modern processing plants. This being so, XL has actively been marketing Alberta beef to all of Canada.

It has long been known in the trade that there is a market preference throughout Canada for Alberta beef. This results from the fact that Alberta beef earned a reputation for consistent quality. Alberta cattle are barley fed until maturity which contributes to the fine grained texture, bright red color and white fat of the beef. Normally Alberta beef is carefully aged so the natural enzymatic action produces more tender, flavourful meat. International culinary competitors and exclusive restaurants have acclaimed this product.

In developing markets for Alberta beef throughout Canada with major food retailers, it has become apparent that the same channels of sales and distribution could also be used for other food products. These could include such items as fresh produce, poultry, seafood and other branded meat products. Future Company plans for diversification within the food industry will therefore be aimed at developing new opportunities in these areas.

*XL beef has
a reputation for
tenderness,
flavor and
consistency that
is earning it
an increasing
market share
across Canada.*

Facts About Beef

Over the last two years, beef's popularity in North America has been affected by the medical professions' concern over high-fat diets, stating they cause both cancer and heart disease. People have erroneously connected beef in particular with high fat content.

It is unfortunate that the public should have construed a well-meant medical warning as a direct criticism against beef. In fact, beef is one of the most efficient sources of protein and calories available. A normal three ounce serving of trimmed beef provides 25 grams of protein and 192 calories, which amounts to more than half the average adult's protein need and yet only one tenth of that person's average daily calorie requirement. The same single serving provides 79 per cent of daily vitamin B-12 need, 26 per cent of niacin, 18 per cent of riboflavin and 15 per cent of iron. Anaemia, blood iron deficiency, is a significant North American dietary problem. Because beef provides iron in an especially digestible form, beef is a valuable prevention of this disease.

Contrary to public belief, beef is not particularly rich in cholesterol. In fact, pork, roast chicken, fried chicken, veal and lamb all have marginally *higher* levels of cholesterol than beef.

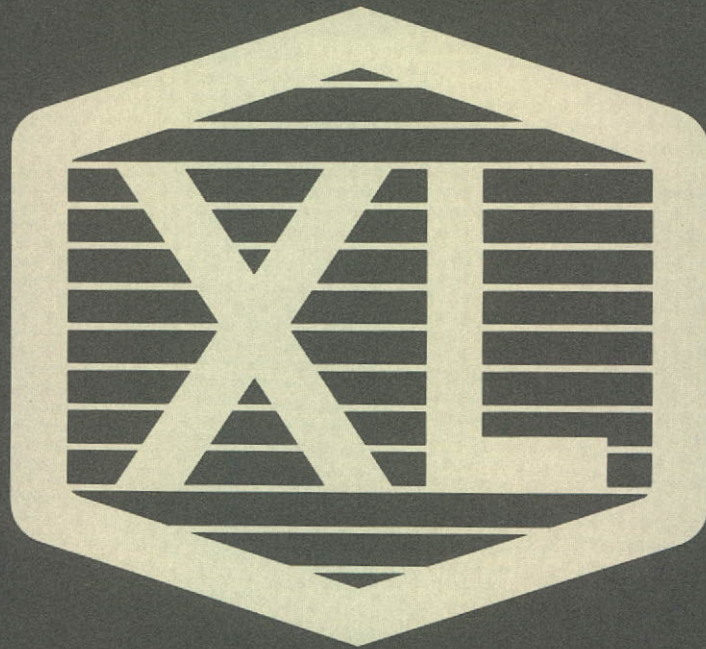
To combat this undeserved negative image, the beef industry has begun a campaign that will inform the public of the many medical and scientific arguments that support beef's innate nutritional value. In this way, the industry hopes to revive meat's latent popularity. By stressing the health benefits of beef's protein content, its ease of preparation and, particularly, by informing our customers of ways to reduce fat ingestion while enjoying beef, we expect to restore confidence in our product.

The Canadian beef grading system places a higher value on lean carcasses than its American counterpart. We believe this leanness constitutes a considerable marketing advantage for XL beef, as consumers realize the many benefits of including lean beef in their diets.



*L.K.
Resources Ltd.*

*1985
Annual Report*

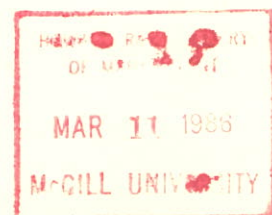


*the
Brand of Excellence*

Annual Meeting

The Annual Meeting of the Shareholders of L.K. Resources Ltd. will be held at 3 p.m. on March 18, 1986 in the Willow Park Room of the Hospitality Inn South, 138 Southland Drive, S.E., Calgary, Alberta.

*The 1986 year will signal
a significant change in your
Company's identity. Upon
shareholder approval L.K.
Resources Ltd. will become
XL Food Systems Ltd.*



L.K. Resources Ltd.
Report To The Shareholders



*Gorham W.
Hussey,
President and
Chief
Executive
Officer*

As we enter 1986, a year that marks a major turning point in the progress of your Company, there is the tendency to reflect on the past. We look back over 100 years in celebration of the McKinnon family's dedication to Alberta agriculture and commitment to sound business values. It is on this rich heritage that a new Company is emerging — *XL Food Systems Ltd.*

The name change, subject to shareholder approval, symbolizes a change in direction. Whereas L.K. Resources Ltd. strived in the past to achieve wide exposure in many of Western Canada's resource industries, XL Food Systems Ltd. will become a specialist in food production and marketing. As time goes on, XL will concentrate its energies on its already-proven marketing skills, increasing both the variety and the number of its value-added beef products. As opportunities present themselves, XL will move into production and marketing of other food products.

During this transition, XL will continue to place value on the excellence of customer service and product quality that governed L.K.'s growth and built it from a homestead a hundred years ago into a major agribusiness corporation today.

This new corporate name symbolizes a renewed commitment to the food industry, serving people's changing needs for basic foods with *XL — The Brand of Excellence*. Our mission is to be a leading Canadian food Company based on excellence in products, quality, service and people. With this direction and commitment, we believe that excellent performance for the shareholders will follow.

In 1985 certain fundamentals were addressed:

- ✓ *A new Chief Executive along with a new Board of Directors were installed*
- ✓ *A new team of experienced managers was recruited to manage beef operations*
- ✓ *A basic assessment of the Company's strengths and potentials was made, providing management with the policies vital to focusing and guiding future directions*
- ✓ *1986 plans and budgets are aimed at strengthening the Company as an integrated beef enterprise re-deploying proceeds from the sale of non-strategic assets into a broader food industry commitment.*
- ✓ *A new bank for the Company's on-going needs is being selected in the wake of the collapse of the Canadian Commercial Bank.*

The financial performance in 1985, particularly in the last half of the fiscal year, showed encouraging signs that management's efforts are impacting positively on profitability. This trend will become even more evident in 1986. A complete discussion of the financial results is included on the following pages.

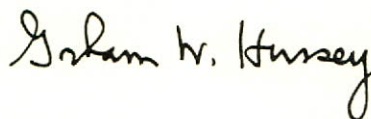
Continuing rationalization is taking place within the meat packing industry, and in fact within agriculture as a whole. While agriculture in general and meat packing in particular have not been looked upon by investors as growth industries, these conditions provide an environment in which innovative, aggressive management can prosper. We are confident that the foundation has been laid, during 1985, that will enable us to take advantage of many opportunities that result from the retrenchment taking place within the industry by many of our competitors.

We would like to pay special tribute to the contribution made by members of our Board of Directors. We would also like to thank the many loyal employees whose support remains one of the major strengths of the Company.

On behalf of the Board of Directors,



Gerald E. Kaumeyer
Chairman of the Board



Gorham W. Hussey
President and Chief Executive Officer

Although the operating results for fiscal 1985 report a loss, your management believes that the objectives and goals established over the past year will once again return the Company to profitability and financial strength.

In the last quarter of fiscal 1984 the Company enjoyed extremely profitable operations as a result of the labour disruptions that occurred across Canada in most of the meat packing and processing industry. During the first quarter of fiscal 1985 these labour disruptions were settled and competition within the industry returned with a vengeance. The resulting lower beef margins produced unsatisfactory results for the first six months of fiscal 1985.

At the beginning of the third quarter of fiscal 1985 a new operating management team was placed in charge of our beef slaughtering and processing facilities. This new management was able to produce profitable results during the latter half of fiscal 1985 and to increase the Company's market share of beef sales.

During the third quarter of fiscal 1985 the Company also entered into a joint venture slaughter agreement with another independent packer which assisted in maintaining the positive momentum established by the new operating management. The reasons for this rationalization of facilities included the existing over-capacity of slaughter facilities, reduced cattle marketings, as well as a trend towards a lower per capita consumption of beef. With the streamlining of operations and improved productivity, it is anticipated that this joint venture will continue to benefit Company profitability.

Our ranching operations were severely affected by drought, insects and lower commodity prices. Although the first six months of cattle feeding operations were above breakeven levels, resulting in profitable operations, the last six months of fiscal 1985 were disappointing. Certain provincial stabilization plans introduced during the late summer of 1985 have however, assisted in mitigating the losses.

The positive results which began in early April 1985 as a result of the new operating management and joint venture agreement were, however, overshadowed by the collapse of the Canadian Commercial Bank, (CCB), on September 3, 1985. The CCB was the Company's principal banker. Since its failure, many hours have been spent by management and many costs incurred in pursuing alternative sources of financing. A major reason for seeking this alternative source of funding immediately is the necessity for expanded operating lines which are required to finance the growth in business and

which are unavailable from the CCB's liquidator. The Company, over the past six years, has always received a supportive and professional approach from the management and staff of the CCB and regrets deeply the unfortunate demise of this lending institution.

On a more positive note, the Company was successful in selling its wholly-owned subsidiary, L.K. Oil & Gas Ltd., for net proceeds of \$9.8 million. The disposition of this investment is consistent with the Company's objective of selling non-essential assets to reduce the corporate debt position. The Company continues to pursue the policy of disposing of other non-essential assets which could reduce long-term debt by an estimated \$10 million.

In fiscal 1985 consolidated sales increased by \$15 million or 6.6 per cent. Direct expenses, up 9.0 per cent, were affected by increased livestock costs and poor cattle feeding results in the last half of the fiscal year which affected most cattle feeders in Alberta. General corporate costs increased from \$1,232,000 in 1984 to \$1,527,000 in 1985, primarily as a result of recruiting additional management and incurring additional professional fees in restructuring the Company's operations. Overall interest costs decreased by \$599,000 or 11.6 per cent due to the easing of interest rates and reduction in corporate debt. It is anticipated that this trend of reduced interest costs will continue in fiscal 1986.

Net income for fiscal 1985 amounted to \$2,693,000 including extraordinary gains of \$4,289,000 which arose primarily from the sale of a wholly-owned subsidiary, L.K. Oil & Gas Ltd. In comparison, net income for fiscal 1984 amounted to \$480,000 including an extraordinary gain of \$225,000.


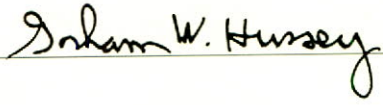
Working capital increased by \$1,506,000 yielding a working capital position at September 30, 1985 amounting to \$5,314,000 as compared to \$3,808,000 for 1984. Long-term debt was reduced by \$8,520,000 to \$27,144,000 while shareholders' equity increased by \$2,693,000 to \$17,219,000.

It is anticipated that the Company will continue to improve its profitability and financial position during fiscal 1986. The Company will pursue the objectives of reducing long-term debt, and interest costs along with improving the profit margins in the integrated beef operations. Improvements in our meat operations implemented in 1985, along with budgeted capital projects for fiscal 1986, will assist in achieving these objectives.

Further sales of non-essential assets and the establishment of new banking facilities will place the Company in a position to look for new opportunities in other meat and food-related areas.

L.K. Resources Ltd.
Consolidated Balance Sheet

September 30, 1985

Assets	1985	1984
Current assets:		
Accounts receivable	\$16,602,000	15,868,000
Inventories, at lower of cost and net realizable value	6,602,000	7,069,000
Prepaid expenses	117,000	213,000
Total current assets	23,321,000	23,150,000
Assets held for resale (Note 2)	1,339,000	1,655,000
Fixed assets, less accumulated depreciation, depletion, and amortization (Note 3)	27,726,000	32,939,000
Other assets (Note 4)	10,926,000	11,340,000
On behalf of the Board:		
 		
Director		
 		
Director		
	\$63,312,000	69,084,000

See accompanying notes

Liabilities	1985	1984
Current liabilities:		
Due to bank (Note 5):		
Bank overdraft	\$ 1,328,000	3,207,000
Bank loans	12,342,000	9,489,000
Income taxes payable — subsidiary	—	53,000
Accounts payable and accrued liabilities	3,425,000	4,258,000
Current portion of long-term debt	912,000	2,335,000
Total current liabilities	18,007,000	19,342,000
Long-term debt, net of current portion (Note 5)	26,232,000	33,329,000
Deferred income taxes	1,633,000	1,591,000
Minority interest — cumulative, retractable, redeemable preferred shares of subsidiary	221,000	296,000
Shareholders' equity:		
Share capital (Note 6)	5,543,000	5,543,000
Contributed surplus	352,000	352,000
Appraisal surplus	11,541,000	11,541,000
Retained earnings (deficit)	245,000	(2,448,000)
	17,681,000	14,988,000
Less: Shares held for employee stock purchase plan	(462,000)	(462,000)
	17,219,000	14,526,000
Contingent liability (Note 10)	\$63,312,000	69,084,000

See accompanying notes.

L.K. Resources Ltd.
Consolidated Statement of Income and Retained Earnings

Year ended September 30, 1985

	1985	1984
Sales	\$241,426,000	226,489,000
Income from geophysical operations (Note 9)	279,000	703,000
	241,705,000	227,192,000
Expenses:		
Direct	235,867,000	216,316,000
General and administrative	1,527,000	1,232,000
Interest — long-term	1,795,000	2,900,000
— other	1,501,000	1,660,000
Depreciation and amortization	1,775,000	1,924,000
	242,465,000	224,032,000
Income (loss) from continuing operations	(760,000)	3,160,000
Income (loss) from discontinued operations (Note 9)	178,000	(1,164,000)
Income (loss) before income taxes, income debenture interest and extraordinary items	(582,000)	1,996,000
Income taxes (Note 7):		
Current	—	42,000
Deferred (recovered)	(255,000)	1,095,000
	(255,000)	1,137,000
Income (loss) before income debenture interest and extraordinary items	(327,000)	859,000
Income debenture interest	(1,269,000)	(604,000)
Income (loss) before extraordinary items	(1,596,000)	255,000
Extraordinary items (Note 8)	4,289,000	225,000
Net income	2,693,000	480,000
Deficit, beginning of year	(2,448,000)	(4,062,000)
Realized gain on appraised lands	—	1,134,000
Retained earnings (deficit), end of year	\$ 245,000	(2,448,000)
Income (loss) per share:		
Basic		
Before extraordinary items	\$(.34)	.02
Extraordinary items	.86	.04
Net income	\$.52	.06
Fully-diluted		
Before extraordinary items	\$(.28)	—
Extraordinary items	.77	—
Net income	\$.49	—

See accompanying notes.

L.K. Resources Ltd.
Consolidated Statement of Changes in Financial Position

Year ended September 30, 1985

	1985	1984
Funds provided (used for) operations:		
Income (loss) from continuing operations	\$ (760,000)	3,160,000
Add (deduct):		
Non-fund items	2,045,000	2,554,000
Income taxes	—	(42,000)
Income debenture interest	(1,269,000)	(604,000)
Working capital provided from operations	16,000	5,068,000
Increase in working capital	(457,000)	(5,450,000)
Net funds used for continuing operations	(441,000)	(382,000)
Income (loss) from discontinued operations, net of non-fund items	—	(527,000)
Net funds used for operations	(441,000)	(909,000)
Investing activities:		
Additions to fixed assets	(872,000)	(1,806,000)
Increase in other assets	(562,000)	(4,233,000)
Special project expenditures	(228,000)	—
Acquisition of 50% interest in subsidiary, net of working capital of \$46,000	—	(250,000)
	(1,662,000)	(6,289,000)
Proceeds on sale of fixed assets	70,000	6,687,000
Proceeds on sale of oil and gas properties	9,164,000	—
	7,572,000	398,000
Financing activities:		
Issue of long-term debt	94,000	7,103,000
Issue (redemption) of preferred shares of subsidiary	(75,000)	296,000
Reduction of long-term debt	(8,124,000)	(2,904,000)
Letter of credit applicable to preferred shares	—	(2,000,000)
	(8,105,000)	2,495,000
Net (increase) decrease in short-term bank indebtedness	(974,000)	1,984,000
Short-term indebtedness, beginning of year	(12,696,000)	(14,680,000)
Short-term indebtedness, end of year	\$(13,670,000)	(12,696,000)
(Increase) decrease in working capital:		
Accounts receivable	\$ (134,000)	(4,885,000)
Inventories	467,000	836,000
Prepaid expenses	96,000	(49,000)
Income taxes payable	(53,000)	53,000
Accounts payable and accrued liabilities	(833,000)	(1,405,000)
	\$ (457,000)	(5,450,000)

See accompanying notes.

L.K. Resources Ltd.
Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of L.K. Resources Ltd. as at September 30, 1985 and the consolidated statements of income and 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 Company as at September 30, 1985 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.

Calgary, Canada
December 10, 1985

Peat, Marwick, Mitchell & Co.
Chartered Accountants

L.K. Resources Ltd.
Notes to the Consolidated Financial Statements

September 30, 1985

1. Significant accounting policies:

(a) Principles of consolidation

The consolidated financial statements include the accounts of L.K. Resources Ltd. and its subsidiaries.

In 1984, the Company sold its geophysical assets and operations at net book value to another company, Line Resource Information Inc. ("LRI"). This investment is accounted for under the equity method of accounting for long-term investments.

Effective August 1, 1985, the Company sold its oil and gas operations which primarily consisted of a gross overriding royalty on certain oil and gas properties in Alberta. As a result, the Company realized a gain of \$4,499,000 which is included under extraordinary items. Results of oil and gas operations to date of sale are included in the consolidated statement of income. A summary of the disposition is as follows:

Net proceeds of sale	\$9,764,000
Net book value of oil and gas assets	4,460,000
Gain on sale	5,304,000
Deduct income taxes — deferred	805,000
Net gain	\$4,499,000
Proceeds applied as follows:	
Term production loan	\$2,980,000
Income debenture	2,800,000
Operating loans	3,384,000
	9,164,000
Accounts receivable due from purchaser	600,000
	\$9,764,000

Additional proceeds of \$900,000 may be received in 1986 if finalization of unitization of the oil and gas property is completed by August 30, 1986.

(b) Depreciation and amortization

Depreciation is provided on the straight-line method using the following rates which are designed to depreciate or amortize the assets over their estimated useful lives:

Assets	Rate
Buildings	2½ - 10%
Vehicles and moveable equipment	10 - 30%
Machinery, equipment, furniture and fixtures	10 - 20%
Fences, wells and dugouts	5 - 10%

Financing costs are being amortized on the straight-line method over a five-year period.

(c) Foreign exchange

Accounts of the United States subsidiary have been translated to Canadian funds under the temporal method on the following basis:

Monetary assets and liabilities at the exchange rate on September 30, 1985.

Non-monetary assets and liabilities at the rate of exchange prevailing when acquired or incurred.

Revenue and expenses (excluding depreciation and amortization which are translated at the same rate as the related assets) at the average rate of exchange for the year. Gains and losses arising from foreign currency translation of current items are included in the determination of net income for the year, while those of non-current items are amortized over their remaining lives.

1. Significant accounting policies (continued):

(d) Goodwill

Goodwill is being amortized on a straight-line basis over thirty years.

(e) Appraisal surplus

In 1979, a predecessor company obtained mortgage financing secured by lands. Certain of the lands securing this mortgage had an appraised value of \$17,634,000. Accordingly, the Board of Directors approved the recording of the excess of the appraisal value over the previous carrying value which amounted to \$16,575,000 on which a provision for income taxes of \$3,900,000 has been provided and credited to deferred income taxes. The appraisal value of the lands was determined by Floen Appraisals Ltd., as of March 5, 1979; all other lands are carried at cost. In 1984, certain of these lands were sold resulting in \$1,134,000 of the appraisal surplus being realized.

(f) Comparative figures

Certain comparative figures for 1984 have been reclassified to conform with 1985 presentation.

(g) Income (loss) per share

Net income (loss) per common share is based on the monthly weighted average number of common shares outstanding and earnings after deduction of preferred share dividends. The calculation of net income (loss) per share on a fully-diluted basis assumes the conversion of all preferred shares and stock options which would have a dilutive effect on income (loss) per share.

2. Assets held for resale (at net realizable value):

	1985	1984
Land	\$ 433,000	433,000
Buildings	648,000	964,000
Other	258,000	258,000
	\$ 1,339,000	1,655,000

3. Fixed assets, at cost, except land:

	1985	1984
Land	\$17,210,000	17,210,000
Buildings	8,630,000	8,318,000
Vehicles	1,003,000	1,089,000
Moveable equipment	304,000	181,000
Machinery and equipment	8,208,000	8,265,000
Furniture and fixtures	446,000	406,000
Land improvements	427,000	415,000
Fences, wells and dugouts	742,000	729,000
Oil and gas properties including equipment thereon	—	4,859,000
	36,970,000	41,472,000
Accumulated depreciation, depletion, and amortization	(9,244,000)	(8,533,000)
	\$27,726,000	32,939,000

4. Other assets:

	1985	1984
Notes receivable, net of current portion	\$ 3,881,000	3,528,000
Goodwill, at cost less accumulated amortization of \$1,196,000 (1984-\$908,000)	6,256,000	6,544,000
Financing costs, less accumulated amortization of \$877,000 (1984-\$760,000)	340,000	442,000
Other, at cost	449,000	826,000
	\$10,926,000	11,340,000

5. Long-term debt:

	1985	1984
13½% first mortgage, payable in monthly instalments including interest of \$92,000, secured by certain lands and premises situated in Alberta, due June 30, 1986	\$ 6,948,000	7,059,000
Income debenture (see below)	12,800,000	17,000,000
Term bank production loan, interest at prime plus 1½%, payable from production proceeds and secured by pledges on certain oil and gas properties	—	3,100,000
Term bank loan, interest at prime plus 1½%, payable in monthly instalments including interest of \$83,500, secured by mortgage on certain lands, buildings and equipment	6,482,000	6,652,000
Term bank loan, interest at prime plus 2%, payable in monthly principal instalments of \$16,000 (U.S. funds), secured by a specific charge on equipment and a floating charge debenture of United States subsidiary	311,000	537,000
Term bank loan, interest at prime plus 2%, payable over 5 years	—	487,000
Obligations under capital leases	235,000	394,000
Other	368,000	435,000
	27,144,000	35,664,000
Deduct current portion	912,000	2,335,000
	\$26,232,000	33,329,000

In 1984, the Company restructured certain operating and term bank loans into an income debenture due in May, 1989. The debenture bears interest at 50% of the bank prime rate plus 2½%. Annual principal repayments are equal to 60% of the parent Company's net cash flow as defined in the debenture agreement. Principal payments of \$2,800,000 were made during 1985 being \$1,225,000 in excess of that which was required. Accordingly, no current portion of principal has been recorded for fiscal 1985.

The company anticipates that the \$6,948,000 mortgage due in 1986 will be refinanced with long-term debt in the usual course of business.

Principal repayments of the Company's long-term debt in each of the next five years, excluding the income debenture, are as follows:

1986	\$912,000
1987	764,000
1988	734,000
1989	792,000
1990	796,000

All bank indebtedness is secured by general assignments of accounts receivable and a pledge of inventories. In addition, fixed and floating charge debentures, aggregating \$45,100,000, have been issued as additional security of which \$35,000,000 is secured by a second specific charge against certain lands, buildings and equipment, subject to permitted encumbrances. The Company's present revolving lines of credit aggregate \$15,050,000.

On September 3, 1985, the Company's principal banker was ordered into liquidation. The Company has made application to another bank for similar lines of credit and accommodations which are expected to be finalized in early 1986.

The Company has guaranteed certain bank indebtedness of Line Resource Information Inc. ("LRI") to a maximum of \$1,750,000. At September 30, 1985, the related outstanding banking indebtedness of LRI is \$1,300,000.

6. Share capital:

	1985	1984
First Preferred Shares without nominal or par value. Authorized 200,000 shares; issued:		
16,414 8.75% Cumulative Redeemable Preferred Shares, Series "A"	\$ —	—
20,000 7% Cumulative Redeemable Convertible First Preferred Shares, Series "B"	1,641,000	1,641,000
Class "A" Special Shares without nominal or par value. Authorized 10,000,000 shares; issued 2,471,172 shares	1,850,000	1,850,000
Class "B" Non-Voting Shares without nominal or par value. Authorized 10,000,000 shares; issued 2,542,672 shares	2,052,000	2,052,000
	\$5,543,000	5,543,000

Under the rights and conditions of the Series "A" and "B" Preferred Shares, \$2,000,000 was secured by a bank letter of credit. The letter of credit firstly secured the annual redemption of the Series "A" Preferred Shares and so long as the Series "B" Preferred Shares had not been converted or redeemed, the letter of credit would be continued. In 1984, the holders of the Series "A" and "B" Preferred Shares called the letter of credit referred to above and as a result \$1,641,000 of Series "B" Preferred Shares due October 1, 1986 remain outstanding. The 7% Series "B" Preferred Shares are redeemable on October 1, 1986 and are convertible at any time prior to September 30, 1986 into an equal number of Class "A" Special Shares and Class "B" Non-Voting Shares at a conversion price of \$4.50 per Class "A" Special and \$4.50 per Class "B" Non-Voting Share. The preferred share dividends, due from April 1, 1983 to October 1, 1985 aggregating \$581,000, have not yet been paid.

The Class "B" Non-Voting Shares are non-voting except in special circumstances, but in all other aspects rank *pari passu* with the Class "A" Special Shares.

Under the Employee Stock Purchase Plan the Company has authorized 66,000 Class "A" Special Shares and 91,000 Class "B" Non-Voting Shares at September 30, 1985.

Under the Employee Stock Option Plan the Company has authorized 84,000 Class "A" Special Shares and 259,000 Class "B" Non-Voting Shares. During 1985, options aggregating 54,750 Class "A" and 162,500 Class "B" shares were granted at prices ranging from \$0.85 to \$1.85 per share. No options were cancelled during the year. The options are exercisable at 20% per year on a cumulative basis and are for a term of six years. Total shares reserved under the option plan aggregate 75,000 Class "A" Special Shares and 194,750 Class "B" Non-Voting Shares at September 30, 1985.

The Company has also reserved 182,377 Class "A" Special Shares and 182,377 Class "B" Non-Voting Shares for conversion of the 16,414 7% Cumulative Redeemable Convertible First Preferred Shares, Series "B" outstanding.

7. Income taxes:

Income tax expense (recovery) differs from the amount that would have been expected if the reported pre-tax income (loss) was subject to the combined Federal and Provincial tax rates for the year. The principal reasons for the difference between such "expected" income tax expense (recovery) and the amount actually expensed (recovered) are as follows:

L.K. Resources Ltd.

	1985	1984
Computed "expected" income tax expense (recovery)	\$(276,000)	942,000
Add (deduct):		
Amortization of goodwill	140,000	120,000
Inventory allowance	(43,000)	(26,000)
Manufacturing and processing credit	(10,000)	5,000
Drawdown of deferred income taxes accumulated at different rates	(59,000)	(24,000)
Income subject to United States taxes at lower effective rates	(35,000)	(150,000)
Unrecognized tax benefit of losses carried forward of subsidiaries	4,000	96,000
Non-deductible losses of equity investment	108,000	91,000
Other	(84,000)	83,000
	\$(255,000)	1,137,000

8. Extraordinary items:

	1985	1984
Gain on sale of ranch lands (net of deferred income taxes of \$37,000)	\$ —	225,000
Provision for write down of assets held for resale (net of deferred income tax of \$128,000)	(268,000)	—
Gain on sale of oil and gas properties (net of deferred income tax of \$805,000)	4,499,000	—
Costs of abandonment of special project (net of deferred income tax of \$61,000)	(167,000)	—
Reduction of income taxes arising from application of losses carried forward	225,000	—
	\$4,289,000	225,000

9. Segmented information:

Since 1984 the Company has operated principally in the agribusiness beef production field which is comprised of an integrated operation of raising, feeding, slaughtering and processing of cattle, along with feed and grain production.

In 1984, the Company sold its geophysical operations to Line Resources Information Inc. ("LRI") retaining a 40% equity interest. The 1985 profits from geophysical operations arose from the sale of seismic information. Results of the geophysical operations are as follows:

	1985	1984
Profits from geophysical operations	\$ 507,000	895,000
Equity in losses of LRI	(228,000)	(192,000)
	\$ 279,000	703,000

Income from oil and gas operations through July 31, 1985 are included under Income from discontinued operations. In 1984, the discontinued operations also included the operating losses of the cedar log manufacturing division and the gravel aggregate operations.

10. Contingent liability:

A statement of claim has been filed against the Company by a former employee for wrongful dismissal in the amount of approximately \$250,000. The Company does not believe the claim has any substance and accordingly has not provided for any liability in its accounts.

L.K. Resources Ltd.
Corporate Information

Officers

Gerald E. Kaumeyer
Chairman of the Board

Gorham W. Hussey
President and Chief Executive
Officer

Brian J. Comfort
Executive Vice-President

T. Peter Luzi
Senior Vice-President

G. David Michaels
Secretary/Treasurer

Issie Elman
Controller

Directors

John K. Church
Balzac, Alberta
Farmer

Donald J. Douglas
Calgary, Alberta
Vice-President and General
Manager
United Management Ltd.

Gerald E. Kaumeyer
Calgary, Alberta
Chairman of the Board
L.K. Resources Ltd.

T. Peter Luzi
Calgary, Alberta
Senior Vice-President
L.K. Resources Ltd.

Neil A. McKinnon
Bassano, Alberta
Rancher

Ralph B. Bunje
San Francisco, Calif.
Partner of Bunje Dowse
& Co.

Gorham W. Hussey
Calgary, Alberta
President and Chief Executive
Officer
L.K. Resources Ltd.

Auditors

Peat, Marwick, Mitchell
& Co.
1000, 10655 Southport
Road S.W.
Calgary, Alberta
T2W 4Y1

Solicitors

MacKimmie Matthews
700 Gulf Canada Square
401 - 9th Avenue S.W.
Calgary, Alberta
T2P 2M2

Banks**Canadian Commercial
Bank**

18th Floor
First Canadian Centre
350 - 7th Avenue S.W.
Calgary, Alberta
T2P 3N9

Province of Alberta

Treasury Branches
717 - 6th Avenue S.W.
Calgary, Alberta
T2P 0T9

**Registrars & Transfer
Agents**

The Canada Trust
Company
505 - 3rd Street S.W.
Calgary, Alberta
T2P 3E6

The Canada Trust
Company
110 Yonge Street
Toronto, Ontario
M5C 1T4

Stock Exchanges

Alberta Stock Exchange
Calgary, Alberta
Trading Symbol: LKR

Toronto Stock Exchange
Toronto, Ontario
Trading Symbol: LKR

Head Office

L.K. Resources Ltd.
790, 10655 Southport
Road S.W.
Calgary, Alberta
T2W 4Y1
(403) 278-9972

Subsidiary & Divisions**LK Ranches**

Bassano, Alberta
T0J 0B0
(403) 641-3500

XL Beef

5101 - 11th Street S.E.
Calgary, Alberta
T2H 1M7
(403) 243-6280

Montagne Meats

4240 - 75th Avenue S.E.
Calgary, Alberta
T2C 2H8
(403) 236-2424

Montagne Meats

2825 Bonnybrook Road
Calgary, Alberta
T2G 4N1
(403) 294-1300

XL Feeds Ltd.

Bassano, Alberta
T0J 0B0
(403) 472-3500

2

L. K. RESOURCES LTD.
#790, 10655 Southport Road S.W.
Calgary, Alberta T2W 4Y1

THIS PROXY IS SOLICITED BY MANAGEMENT AND WILL BE USED AT THE SPECIAL AND ANNUAL GENERAL MEETING OF SHAREHOLDERS TO BE HELD ON MARCH 18, 1986.

The undersigned shareholder of L. K. Resources Ltd. (hereinafter called "the Company") or his attorney authorized in writing, hereby nominates, constitutes and appoints Neil A. McKinnon, a director of the Company, or failing him Gerald E. Kaumeyer, a director of the Company, or instead of either of the foregoing:

the true and lawful attorney, proxy, agent and nominee of the undersigned, with full power of substitution, to attend, act and vote on behalf of the undersigned at the Special and Annual General Meeting of Shareholders of the Company to be held on Tuesday, March 18, 1986, at the hour of 3:00 o'clock in the afternoon (Calgary time) and at any adjournments thereof, and at every poll that may take place in consequence thereof:

1. TO VOTE FOR () OR AGAINST ()

Fixing the number of directors to be elected for the ensuing year at nine.

2. TO VOTE FOR () OR WITHHOLD FROM VOTING ON ()

The election as Directors for the ensuing year of the nominees provided for in the Management Proxy Circular accompanying this Proxy.

3. TO VOTE FOR () OR WITHHOLD FROM VOTING ON ()

The appointment of Peat, Marwick, Mitchell & Co., Chartered Accountants, Calgary, Alberta as Auditors of the Company for the ensuing year and the authorization of the Directors to fix their remuneration.

4. TO VOTE FOR () OR AGAINST ()

Amending the Articles of the Company to change the name of the Company from L.K. Resources Ltd. to XL Food Systems Ltd.

5. TO VOTE FOR () OR AGAINST ()

Amending the Articles of the Company firstly, to change the designation of the Class "A" Special Shares, whether issued or unissued, to Common Shares; secondly, to change each Class "B" Non-voting Share, whether issued or unissued, into one Common Share; and thirdly, to change the number of authorized Common Shares to an unlimited number.

6. To vote at the discretion of said proxy if not specified above and upon any amendments to or variations of any matters set out herein or other matters that may properly be brought before the meeting or any adjournments thereof.

THE UNDERSIGNED HEREBY RATIFY AND CONFIRM ALL THAT THE PROXY MAY DO BY VITURE HEREOF. ANY PROXY PREVIOUSLY GIVEN WITH RESPECT TO THE UNDERSIGNED SHARES IS HEREBY REVOKED AND THIS PROXY MAY BE REVOKED ANY TIME PRIOR TO THE EXERCISE THEREOF.

THE SAID PROXY WILL VOTE THE SHARES REPRESENTED BY THIS INSTRUMENT AS DIRECTED ABOVE, AND, IF NO DIRECTION IS GIVEN, SAID PROXY SHALL VOTE IN FAVOUR OF EACH OF THE MATTERS REFERRED TO ABOVE.

DATED this _____ day of _____, 1986

Signature of Shareholder

*** A shareholder has the right to appoint a person or company, other than Neil A. McKinnon or Gerald E. Kaumeyer, to represent him and act on his behalf at the meeting. To exercise this right insert the name of the person you wish to appoint in the space provided above. Such person need not be a shareholder.**

NOTE: Joint owners should each sign the instrument of Proxy and if a shareholder is a corporation, the instrument of proxy should be under its corporate seal or executed by an officer or attorney thereof duly authorized in writing and a copy of such authority must accompany the proxy.

A PROXY WILL NOT BE VALID UNLESS THE FORM OF PROXY IS COMPLETED AND DELIVERED TO THE CANADA TRUST COMPANY, 505 - 3rd STREET S.W., CALGARY, ALBERTA T2P 3E6, NOT LESS THAN 48 HOURS (EXCLUDING SATURDAYS AND HOLIDAYS) BEFORE THE MEETING AT WHICH THE PERSON NAMED THEREIN PURPORTS TO VOTE IN RESPECT THEREOF.

MAR 4 1986

C

L. K. RESOURCES LTD.
#790, 10655 Southport Road S.W.
Calgary, Alberta T2W 4Y1

NOTICE OF SPECIAL AND ANNUAL GENERAL MEETING
OF SHAREHOLDERS TO BE HELD ON
MARCH 18, 1986

TAKE NOTICE that a Special and Annual General Meeting of the Shareholders of L. K. Resources Ltd. (hereafter called "the Company") will be held in the Willow Park Room at the Hospitality Inn (South), Macleod Trail and Southland Drive, in the City of Calgary, in the Province of Alberta, on Tuesday the 18th day of March, 1986 at the hour of 3:00 o'clock in the afternoon (Calgary time) for the following purposes:

1. To receive the Annual Report of the Directors to the Shareholders, and the Consolidated Financial Statements of the Company for the fiscal year ended September 30, 1985 together with the Auditor's report thereon.
2. To fix the number of directors to be elected for the ensuing year at nine.
3. To elect directors of the Company for the ensuing year.
4. To appoint auditors for the ensuing year and to authorize the directors to fix their remuneration.
5. To consider, and if thought fit, to adopt the following Special Resolution:

BE AND IT IS HEREBY RESOLVED AS A SPECIAL RESOLUTION THAT the Articles of the Company be amended to change the name of the Company from L. K. Resources Ltd. to XL Food Systems Ltd., and the Secretary of the Company be and is hereby authorized to file the appropriate Articles of Amendment and such other documents as may be required to facilitate this amendment with the Registrar of Corporations for the Province of Alberta; provided that the Directors may revoke this Special Resolution before it is acted on without further approval of the Shareholders.

6. To consider, and if thought fit, to adopt the following Special Resolution:

BE AND IT IS HEREBY RESOLVED AS A SPECIAL RESOLUTION THAT the Articles of the Company be amended to:

- (i) firstly, change the designation of the Class "A" Special Shares, whether issued or unissued, to Common Shares;
- (ii) secondly, change each Class "B" Non-voting Share, whether issued or unissued, into one Common Share; and
- (iii) thirdly, change the number of authorized Common Shares to an unlimited number;

with the right of the holders of Common Shares to be equal in all respects, such rights being:

- (i) the entitlement to one vote for each Common Share held at all meetings of shareholders of the Company other than meetings of the holders of any class of shares meeting as a class or the holders of one or more series of any class of shares meeting as a series;
- (ii) the entitlement to any dividends that may be declared by the Board of Directors thereon; and
- (iii) in the event of liquidation, dissolution or winding-up of the Company, the entitlement, subject to the rights of the holders of shares ranking prior to the Common Shares, to receive the remaining assets of the Company;

and the Secretary of the Company be and is hereby authorized to file the appropriate Articles of Amendment and such other documents as may be required to facilitate this amendment with the Registrar of Corporations for the Province of Alberta; provided that the Directors may revoke this Special Resolution before it is acted on without further approval of the Shareholders.

OF PRINTING THIS MANAGEMENT PROXY CIRCULAR, THE MANAGEMENT OF THE COMPANY KNOWS OF NO SUCH AMENDMENTS, VARIATIONS OR OTHER MATTERS TO COME BEFORE THE MEETING OTHER THAN THE MATTERS REFERRED TO IN THE NOTICE OF MEETING.

Although certain of the Directors, proposed nominees for election as Directors, and Senior Officers of the Company, and their respective associates or affiliates, own shares of the Company, no such person or company has a material interest, direct or indirect, by way of the beneficial ownership of such shares or otherwise, in any matter to be acted on at the meeting, except to the same proportionate extent that such matters affect shareholders of the Company generally.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The holders of Class "A" Special shares are entitled to vote such shares at the meeting on the basis of one vote for each share held. Three or more shareholders personally present and holding or representing by proxy not less than 5% of the issued Class "A" Special shares of the Company will constitute a quorum. As of the date hereof, 2,471,172 Class "A" Special shares are issued and outstanding out of a total authorized capital of 10,000,000 Class "A" Special shares.

To the knowledge of the Directors and Senior Officers of the Company, the following are the only persons beneficially owning, directly or indirectly, or exercising control or direction over voting securities carrying more than 10% of the voting rights attached to all outstanding voting securities designated as Class "A" Special shares of the Company and carrying the right to vote.

<u>Name and Address</u>	<u>Number of Class "A" Special shares Beneficially Owned, Controlled or Directed</u>	<u>Percentage of Outstanding Class "A" Special shares</u>
James L. McKinnon, Pritchard, B.C.	331,787	13.8
Alice Huggard, Calgary, Alberta	268,950	10.9
Barbara Church, Balzac, Alberta	247,173	10.0

Notes:

1. James L. McKinnon is the brother of Neil A. McKinnon and Alice Huggard is the sister of Neil A. McKinnon. Neil A. McKinnon is a director of the Company.
2. Barbara Church is the wife of John Church who is a director of the Company. Mrs. Church is also the sister of Neil A. McKinnon.

The date for determination of the shareholders entitled to receive Notice of the Meeting shall be at the close of business on the last business day preceding the date on which the Notice is sent.

Any holder of record of Class "A" Special shares at the close of business of the transfer agent of the Company in Calgary, Alberta on the last business day preceding the date on which the Notice of Meeting is sent, who either personally attends the meeting, or who has completed and delivered a form of proxy in the manner and subject to the provisions set out in the headings APPOINTMENT OF PROXIES and REVOCATION OF PROXIES, will be entitled to vote or to have his shares voted at the meeting. The transfer register of Class "A" Special shares will not be closed.

VOTING RESTRICTIONS OF CLASS "B" NON-VOTING SHARES

The holders of Class "B" Non-voting shares shall not be entitled to vote at any meeting of the shareholders of the Company except as provided in the Articles or as otherwise provided by law. In the event that the Company proposes to (i) amalgamate with any corporation other than one or more subsidiaries of the Company, or (ii) make an arrangement, or (iii) sell, lease or transfer or otherwise dispose of its properties and assets substantially as an entirety, or (iv) voluntarily liquidate, dissolve or wind up or distribute its assets among its shareholders for the purpose of winding up its affairs, or (v) amend its Articles so as to affect the Class "B" Non-voting shares in a certain manner, or (vi) as otherwise provided at law, the holders of the Class "B" Non-voting shares shall be entitled to receive notice of any meeting of shareholders of the Company called to consider such matter and to receive all material relating thereto which is sent to

the holders of Class "A" Special shares and to have one vote for each Class "B" Non-voting share held, and such matter not to be proceeded with unless it is approved or authorized by the required majority of votes cast thereon, including the votes cast in respect of Class "B" Non-voting shares as if the Class "B" Non-voting shares were Class "A" Special shares.

As of the date hereof 2,542,672 of the Company's Class "B" Non-voting shares are issued and outstanding out of a total authorized capital of 10,000,000 Class "B" Non-voting shares.

To the knowledge of the Directors and Senior Officers of the Company, the following are the only persons beneficially owning, directly or indirectly, or exercising control or direction over Class "B" Non-voting shares carrying more than 10% of the voting rights attached to all outstanding Class "B" Non-voting shares if and when such Class "B" Non-voting shares become eligible to vote as set forth above.

<u>Name and Address</u>	<u>Number of Class "B" Non-voting shares Beneficially Owned, Controlled or Directed</u>	<u>Percentage of Outstanding Class "B" Non-voting shares</u>
James L. McKinnon, Pritchard, B.C.	341,586	13.4
Alice Huggard, Calgary, Alberta	268,950	10.6
Barbara Church, Balzac, Alberta	247,173	9.7

Notes:

1. James L. McKinnon is the brother of Neil A. McKinnon and Alice Huggard is the sister of Neil A. McKinnon. Neil A. McKinnon is a director of the Company.
2. Barbara Church is the wife of John Church who is a director of the Company. Mrs. Church is also the sister of Neil A. McKinnon.

FIRST PREFERRED SHARES

As of the date of this Management Proxy Circular 16,414 8.75% Cumulative Redeemable First Preferred Shares Series "A" and 20,000 7% Cumulative Redeemable Convertible First Preferred Shares Series "B" are issued and outstanding out of a total authorized capital of 200,000 First Preferred Shares. The First Preferred Share dividends, due April 1st, 1983 to October 1st, 1985, aggregating \$581,000 have not yet been paid. The holders of the First Preferred Shares shall not be entitled to vote at any meeting of the Shareholders of the Company except as provided in the Articles of Continuance of the Company or as otherwise provided by law.

Under the rights and conditions of the Series "A" and "B" Preferred Shares, \$2,000,000 was secured by a bank letter of credit. The letter of credit secured the annual redemption of the Series "A" Preferred Shares and so long as the Series "B" Preferred Shares had not been converted or redeemed, the letter of credit would be continued. During fiscal 1984, the holders of the Series "A" and "B" Preferred Shares called the letter of credit referred to above and as a result 16,414 Series "A" Preferred Shares with an aggregate redemption amount of \$nil and 20,000 Series "B" Preferred Shares with an aggregate redemption amount of \$1,641,000 remain outstanding.

**REMUNERATION OF DIRECTORS AND SENIOR OFFICERS DURING THE FISCAL YEAR
ENDED September 30, 1985**

	<u>From Office, Employment and Employer Contributions</u>	<u>Pension Benefits</u>	<u>Other</u>
1. Directors - Total 7	\$12,500	Nil	Nil
2. Five Senior Officers*	\$500,000	Nil	Nil
3. Officers with remuneration over \$50,000 - Total 7	\$640,000	Nil	Nil

* Includes the Chairman of the Board, President, Senior Vice President, Treasurer, and a General Manager, three of whom received such remuneration through private companies, of which they are the principal shareholder, which have annual renewable management contracts with the Company.

The Company does not have a pension or retirement plan for its officers and employees and does not contemplate in the immediate future such matters or other forms of additional remuneration.

ELECTION OF DIRECTORS

The number of Directors of the Company presently consists of seven Directors. It is proposed to fix the number of directors for the ensuing year at nine. Each director will hold office for a term to expire immediately prior to the next annual general meeting of shareholders of the Company, unless he resigns earlier.

It is proposed that the following persons, some of whom are presently Directors of the Company, will be nominated at the meeting. IT IS THE INTENTION OF THE MANAGEMENT DESIGNEES IF NAMED AS PROXY TO VOTE FOR THE ELECTION OF SAID PERSONS TO THE BOARD OF DIRECTORS UNLESS OTHERWISE DIRECTED. MANAGEMENT DOES NOT CONTEMPLATE THAT ANY OF THESE NOMINEES WILL BE UNABLE TO SERVE AS A DIRECTOR BUT SHOULD THAT OCCUR FOR ANY REASON PRIOR TO THE MEETING THE PERSONS NAMED IN THE ACCOMPANYING FORM OF PROXY RESERVE THE RIGHT TO VOTE FOR ANOTHER NOMINEE IN THEIR DISCRETION. EACH DIRECTOR ELECTED WILL HOLD OFFICE UNTIL THE NEXT ANNUAL MEETING OR UNTIL HIS SUCCESSOR IS DULY ELECTED OR APPOINTED UNLESS HIS OFFICE IS EARLIER VACATED. The following information relating to the nominees as Directors is based partly on the Company's records and partly on information received by the Company from the said nominees and sets forth the name and address of each of the persons proposed to be nominated for election as a Director, his principal occupation at present and in the preceding five years, all of the positions and offices in the Company held by him, the year in which he was first elected a Director and the number of Class "A" Special shares of the Company that he has advised the Company are beneficially owned by him, directly or indirectly, as of the date hereof.

Nominee as Director	Position Presently Held	Principal Occupation During Past Five Years and Director Since	Class "A" Special shares Directly or Indirectly Owned Controlled or Directed
Neil A. McKinnon Bassano, Alberta	Director	Chairman of the Board and a Director of the Company from October 1979 to March, 1985 and thereafter a Rancher and Director of the Company.	153,176*
Gerald E. Kaumeyer Calgary, Alberta	Chairman of the Board & Director	Vice-Chairman of the Board and a Director of the Company from October 1979 to March 1980; President and a Director of the Company until March 1983; Vice-Chairman of the Board and a Director of the Company until March 1984; President and Director of the Company until March 1985; and thereafter Chairman of the Board and a Director of the Company.	164,370**
Donald J. Douglas Calgary, Alberta	Director	Vice-President Corporate Development until 1981, of Turbo Resources Ltd.; Executive Vice-President of the Company until March 1983; President and a Director of the Company until February 1984, and thereafter Vice-President and General Manager of United Management Limited and a Director of the Company.	17,656
T. Peter Luzi Calgary, Alberta	Senior Vice-President & Director	Vice-President Finance and a Director of the Company from October 1979 to March 1983; and thereafter Senior Vice-President and a Director of the Company.	31,325***
John K. Church Balzac, Alberta	Director	Vice-President of McKinnon, Allen & Associates and a Director of the Company since October 1979.	8,292
Ralph B. Bunje, Jr. San Francisco, Calif.	Director	Partner of Bunje Dowse & Co. and a Director of the Company since March 1985.	13,461****
Gorham W. Hussey Calgary, Alberta	President & Director	Vice-President Land O'Lakes (Spencer Beef Div.), until 1984; President of Dold Foods Inc. until 1985; and thereafter President of the Company and a Director of the Company since March 1985.	169,845
Fred H. Peacock Calgary, Alberta		Agent General, Province of Alberta Pacific Asian Rim; a Director of the Company from October 1979 to August 1982.	2,500*****
Dr. Jim B. Graham Cochrane, Alberta		Assistant Dean, Faculty of Management, University of Calgary.	—

- * Mr. N. McKinnon owns 129,798 Class "A" Special Shares of the Company. In addition, he owns 31 % of the issued and outstanding voting shares of Namco Developments Ltd. which company owns 23,378 Class "A" Special Shares of the Company.
- ** Mr. Kaumeyer owns 24,435 Class "A" Special Shares of the Company. In addition, he owns 75 % of the issued and outstanding voting shares of Sevenkay Holdings Ltd., which company owns 111,156 Class "A" Special Shares of the Company. Sevenkay Holdings Ltd. owns 50 % of the issued and outstanding voting shares of Ranchland Holdings Ltd., which company owns 28,779 Class "A" Special Shares of the Company.
- *** Mr. Luzi owns 18,351 Class "A" Special Shares of the Company. In addition, he owns 51 % of the issued and outstanding voting shares of Petemar Management Services Ltd. which company owns 12,974 Class "A" Special Shares of the Company.
- **** Mr. Bunje has a one-fifth interest in the partnership J-Dart Investments, which partnership owns 13,461 Class "A" Special Shares of the Company.
- ***** Mr. Peacock owns two-thirds of the issued and outstanding voting shares of Peacock Holding Company Ltd., which company owns 2,500 Class "A" Special Shares of the Company.

The Company has an Audit Committee consisting of Messrs. Hussey, Church and Bunje, and a Compensation Committee consisting of Messrs. Kaumeyer and Douglas. The Company also has an Executive Committee comprised of Messrs. Kaumeyer, Luzi, Hussey and Comfort.

EMPLOYEE OPTIONS TO PURCHASE SHARES

The Company has reserved 84,000 Class "A" Special shares and 259,000 Class "B" Non-voting shares pursuant to the terms of a Key Employee Stock Option Plan instituted May 26, 1980. To the date of this circular the total shares subject to options under the option plan aggregate 75,000 Class "A" Special shares and 194,750 Class "B" Non-voting shares to 10 key employees of the Company three of whom are directors and officers of the Company and two of whom are officers of the Company. The options are exercisable as to 20 % each year from the date of issue, on a cumulative basis, and are for a term of six years. The Company did not receive consideration as such for the granting of the options but will receive the purchase price on the exercise of the options. Particulars of options granted since October 1, 1984, are as follows:

Date of Grant	Number of Shares	Price Per Share	Expiry Date	Price Range in 30-Day Period Preceding Grant	
				Low	High
March 1, 1985	44,750 Class "A"	\$1.00	March 1, 1991	\$0.70	\$0.85
March 1, 1985	142,500 Class "B"	\$0.85	March 1, 1991	\$0.60	\$0.70
May 30, 1985	10,000 Class "A"	\$1.85	May 30, 1991	\$1.85	\$1.95
May 30, 1985	20,000 Class "B"	\$1.50	May 30, 1991	\$1.50	\$1.80

None of the above options have been exercised to date.

EMPLOYEE STOCK PURCHASE PLAN

The Company has reserved a further 66,000 Class "A" Special shares and 91,000 Class "B" Non-voting shares pursuant to the terms of a Key Employee Stock Purchase Plan. The Company instituted the plan to provide an incentive to its employees. Under the plan the Company provided money to The Canada Trust Company as the trustee of the plan to purchase shares in the share capital of the Company. Under the plan agreements to purchase from the said trustee a total of 66,000 Class "A" Special shares and 91,000 Class "B" Non-voting shares have been made with 22 current and former key employees of the Company of whom two are Directors and officers of the Company. The purchase price is payable in full (without interest) on the last business day preceding the Tenth Anniversary of the date of each agreement to purchase or such earlier date as is particularly provided in each agreement to purchase between the said trustee and the particular key employee. Each employee has limited rights of pre-payment of the purchase price. No shares have been issued under the plan since October 1, 1984.

INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

In connection with the purchase of shares from the Employee Stock Purchase Plan, the following table sets out the particulars in respect of Directors, nominees for Directors and Senior Officers and any associate or affiliate of any of them, to whom loans have been advanced. The loans are payable in full (without interest) on the last business day preceding the Tenth Anniversary of the date of each agreement to purchase or such earlier date as is particularly provided in each agreement.

<u>Name</u>	<u>Number of Shares Issued</u>		<u>Date of Loan</u>	<u>Largest Amount of Loan</u>	<u>Amount of Loan Presently Outstanding</u>
	<u>Class "A"</u>	<u>Class "B"</u>			
Gerald E. Kaumeyer, Chairman of the Board, Calgary	17,500	17,500	May 26, 1980	\$91,000	\$91,000
T. Peter Luzi, Senior Vice-President, Director, Calgary	10,000	10,000	May 26, 1980	\$52,000	\$52,000

APPOINTMENT OF AUDITORS

The shareholders will be asked to vote for the appointment of Peat, Marwick, Mitchell & Co., Chartered Accountants, Calgary, Alberta, as auditors of the Company for the current fiscal year and authorize the directors to fix their remuneration.

PARTICULARS OF OTHER MATTERS TO BE ACTED ON

Change of Name

The Directors have determined that in order to reflect the increased activities of the Company, it is desirable to change the name of the Company. The Directors propose that the name of the Company be changed from L.K. Resources Ltd. to XL Food Systems Ltd. to reflect the historical use of the XL brand by the Company. Accordingly, the shareholders of the Company will be asked to consider, and if thought fit, to adopt a special resolution amending the Articles of the Company to change the name of the Company from L.K. Resources Ltd. to XL Food Systems Ltd.

Changes to Share Capital

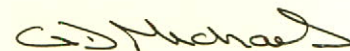
The Directors have determined that it is in the best interests of the Company and the shareholders of the Company will be asked to consider, and if thought fit, to adopt a special resolution to change the designation of the Class "A" Special shares, whether issued or unissued, to Common Shares, to change each Class "B" Non-voting Share, whether issued or unissued, into one Common Share, and to increase the number of authorized Common Shares to an unlimited number.

As this special resolution contemplates a proposed amendment to the Articles of the Company effecting a reclassification of the Class "A" Special shares to Common Shares, a change of the Class "B" Non-voting shares to Common Shares, and an increase in the number of authorized Common Shares to an unlimited number, the holders of Class "A" Special shares and Class "B" Non-voting shares will be asked to consider the proposed amendment, each separately as a class, and the proposed amendment will be adopted only when the holders of the Class "A" Special shares and the Class "B" Non-voting shares, voting separately as a class, have each approved the amendment by Special Resolution.

OTHER BUSINESS

Management is not aware of any matters to come before the meeting other than those set forth in the Notice of Meeting. If other matters properly come before the Meeting it is the intention of the individuals named in the form of Proxy to vote the same in accordance with their best judgement in such matters.

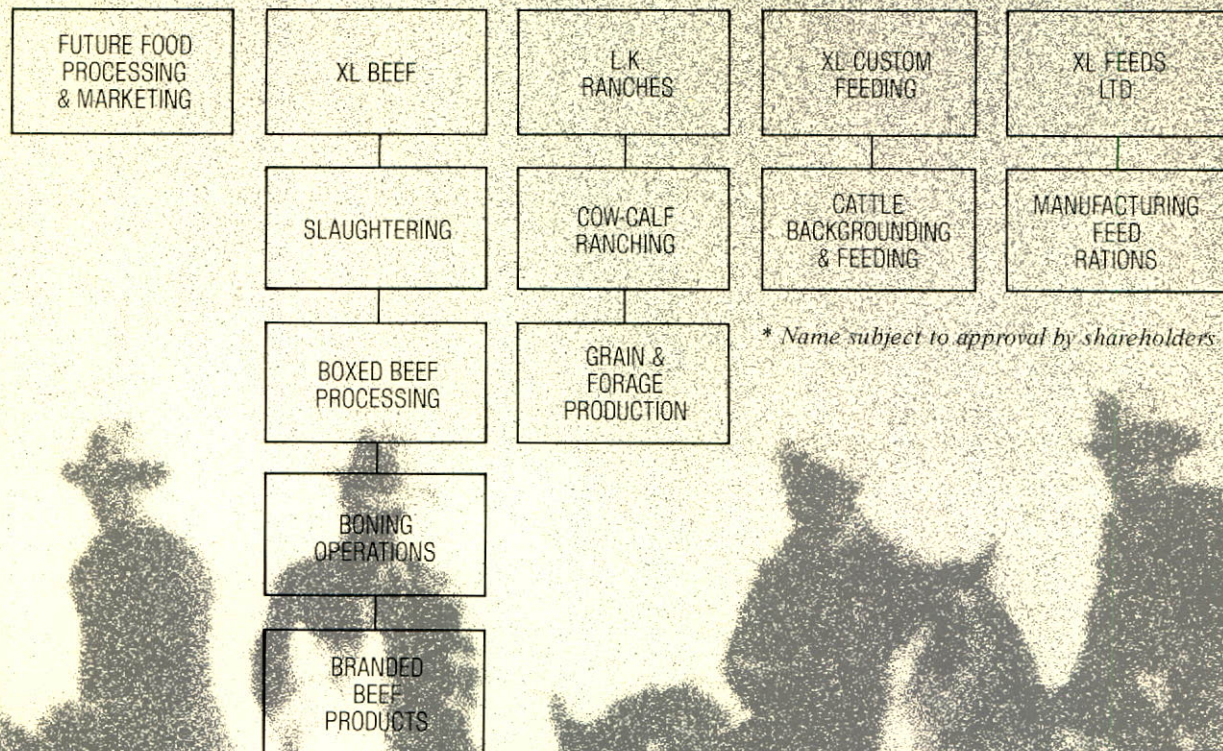
BY ORDER OF THE BOARD OF DIRECTORS



G. David Michaels, Secretary

L.K. Resources Ltd.

XL FOOD SYSTEMS LTD.*



* Name subject to approval by shareholders

XL Food Systems Ltd.
(formerly L.K. Resources Ltd.)

Corporate Information

Head Office

XL Food Systems Ltd.
790, 10655 Southport Road S.W.
Calgary, Alberta
T2W 4Y1
(403) 278-9972

Subsidiary & Divisions

LK Ranches
Bassano, Alberta
T0J 0B0
(403) 641-3500

XL Beef
5101 - 11th Street S.E.
Calgary, Alberta
T2H 1M7
(403) 243-6280

Montagne Meats
4240 - 75 Avenue S.E.
Calgary, Alberta
T2C 2Hb
(403) 236-2424

Montagne Meats
2825 Bonnybrook Road
Calgary, Alberta
T2G 4N1
(403) 294-1300

XL Feeds Ltd.
Bassano, Alberta
T0J 0B0
(403) 472-3500