

Maple Leaf Mills Limited



Annual Report
1981



Chairman's Report

During the fiscal year 1981, sales and operating revenues increased 8% to \$919,986,000, while net earnings were \$14,554,000, compared with pro-forma earnings of \$9,483,000 in 1980, an increase of 53%.

The Agricultural segment of our Company contributed higher earnings in 1981, in spite of the very difficult economic conditions which prevailed. The effect of high interest rates and depressed livestock prices on farmers has been well publicized. These factors resulted in higher than normal bad debt expense and contributed to poor results in our feed operations and our Quebec grain merchandising business. The Quebec grain business has been sold since year end and our Forage and Turf seed operations, which lacked growth potential, were also sold during the year.

Our Poultry operations showed an encouraging recovery from the depressed situation which prevailed in 1980 and the Division's sales were improved by the acquisition of Stillmeadow Farms Limited, a producer of specialty chicken products. The operation of our terminal elevators and the Ontario grain merchandising and country elevator segment of our Farm Supply Division also did well. The Rendering Division had a successful year, assisted by the purchase of Gordon Young Limited in April, 1981 for \$10,000,000. This acquisition expanded the Division's activities into Manitoba, Quebec and the Maritimes, and significantly enlarged its operations in the Province of Ontario.

The Flour Division continued to do well in spite of the relentless decline in Canadian flour exports, which led to the closure of the St. Boniface mill early in the year. The Division has increased its emphasis on technical service and specialty products, and through the operations of its six mills in Western and Eastern Canada, has maintained its share of the Canadian market.

The Grocery Products Division achieved record sales and earnings for the year, mainly as a result of improved margins and increased efficiencies at its new highly automated plant at Maple Leaf Mills Court in Toronto.

The results of the International Division were considerably above those of the previous year. The flour and feed operations of the Division in the Caribbean performed well in most areas and the commodity trading segment increased its sales in the Caribbean, Central America and the United Kingdom.

Our Associated Bakery operations generated improved earnings mainly as a result of more stable ingredient prices and improved operating efficiencies resulting from the capital investment program in modern highly automated equipment carried out over the past few years.

Maple Leaf Monarch Company, a vegetable oil operation in which we hold a 50% joint venture interest, operated at a loss in 1981 as a result of universally poor crushing margins and low oil prices in world markets. There has been some improvement in industry conditions recently and together with the impact of profit improvement programs, this venture should be profitable in 1982.

Overall, the Company is doing well, and with the rationalization of some of its operations and the sale or closure of certain of its marginal businesses and facilities, is in excellent condition to weather the present difficult economic situation and to continue to grow in its general areas of expertise.

In July 1981, Mr. Robert S. DeMone was appointed President and Chief Operating Officer of Maple Leaf Mills Limited. We welcome him to the Company and look forward to his contribution and leadership in the years ahead.

One of the great strengths of Maple Leaf over the years has been its employees at every level of its operations. This continues to be the case, and their contribution to the growth of our operations and the stability that the Company enjoys is very greatly appreciated.

Robert G. Dale
Chairman and
Chief Executive Officer

March 8, 1982

Maple Leaf Mills Limited

Directors

R. W. Campbell	J. W. Kerr
D. Corner	J. H. Panabaker
R. G. Dale	W. J. Stenason
R. S. DeMone	J. A. Telfer
L. Y. Fortier	

Officers

R. G. Dale,	Chairman of the Board and Chief Executive Officer
R. S. DeMone,	President and Chief Operating Officer
D. Corner,	Executive Vice-President
J. A. Telfer,	Executive Vice-President
W. E. Paterson,	Senior Vice-President, International Operations
J. J. Wigle,	Senior Vice-President, Finance
G. B. Ballantyne,	Vice-President, Rendering Operations
J. W. Cargill,	Vice-President, Administration
F. T. Cowan,	Vice-President, Farm Supply
A. H. James,	Vice-President, Flour
H. G. Jones,	Vice-President, Poultry
J. W. MacDonald,	Vice-President, Grocery Products
C. L. Turner,	Vice-President, Grain
D. D. Brown,	Corporate Controller
J. A. Bagg,	Assistant Corporate Controller
R. J. Mogg,	Assistant Corporate Controller
R. E. Lennox,	Secretary-Treasurer
P. Kriwoy,	Assistant Secretary
G. S. MacLean,	Assistant Secretary

Associated Companies Officers

N. T. Currie,	President and Chief Executive Officer, * Corporate Foods Limited
D. Devine,	President and Chief Executive Officer, McGavin Foods Limited
D. G. Hickingbottom,	President and Chief Executive Officer, Eastern Bakeries Limited
W. G. Milliken,	President and Chief Executive Officer, Maple Leaf Monarch Company

Head Office

2300 Yonge Street
Toronto, Ontario M4P 1E4

Consolidated Financial Statements

for the year ended December 31, 1981

Consolidated Statement of Earnings

for the year ended December 31, 1981
(000's omitted)

	1981	1980 Pro-forma (note 11)
Sales and revenues:		
Sales and operating revenues	\$919,986	\$851,049
Interest, investment and other income	4,929	3,222
Equity in net earnings of associated companies	3,530	1,151
	928,445	855,422
Costs and expenses:		
Cost of sales and operating expenses	820,979	767,381
Selling and administrative expenses	54,196	47,546
Depreciation and amortization	10,721	9,171
Interest on long-term debt	10,910	9,952
Interest on short-term debt	7,762	4,994
Minority interest	1,823	935
	906,391	839,979
Earnings before income taxes	22,054	15,443
Income taxes	7,500	5,960
Net earnings	\$ 14,554	\$ 9,483

Consolidated Statement of Retained Earnings

for the year ended December 31, 1981
(000's omitted)

	1981	1980
Retained earnings at beginning of year	\$ 1,963	\$ 1,551
Net earnings (note 11)	14,554	6,654
	16,517	8,205
Dividends	—	6,071
Arbitration settlement with former shareholders	—	171
Retained earnings at end of year	\$ 16,517	\$ 1,963



Consolidated Balance Sheet

December 31, 1981 (000's omitted)

Assets

	1981	1980
Current:		
Short-term deposits and investments, at cost which approximates market	\$ 5,391	\$ 6,512
Accounts receivable	70,851	71,645
Inventories (note 3)	60,659	84,633
Prepaid expenses	2,110	1,355
Total current assets	139,011	164,145
Investments in associated companies (note 4)	18,538	15,671
Property and equipment (note 5)	129,257	110,146
Other assets	8,236	7,081
	\$295,042	\$297,043

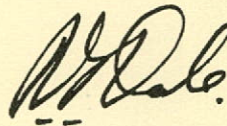
Maple Leaf Mills Limited

Liabilities

	1981	1980
Current:		
Bank indebtedness	\$ 27,087	\$ 37,161
Due to affiliated companies (note 13)	292	9,845
Accounts payable and accrued liabilities	45,817	47,582
Income and other taxes payable	4,290	3,618
Long-term debt maturing within one year	4,009	6,594
Total current liabilities	81,495	104,800
Long-term debt (note 6)	76,617	75,102
Accrued pension costs (note 7)	2,616	2,573
Deferred income taxes	6,917	3,404
Minority interest in subsidiaries:		
Preference shares	1,225	1,225
Common shares	7,302	6,038
	8,527	7,263
Shareholder's equity:		
Share capital (note 8)	102,353	101,938
Retained earnings	16,517	1,963
	118,870	103,901
	\$295,042	\$297,043

On behalf of the Board:

Director
R. G. Dale



Director
J. W. Kerr



Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1981
(000's omitted)

	1981	1980
Source of funds:		
Net earnings	\$14,554	\$ 6,654
Depreciation and amortization	10,721	5,233
Deferred income taxes	3,248	3,354
Other	(1,895)	(231)
Funds from operations	26,628	15,010
Sale of property and equipment	1,889	474
Issue of common shares	415	98,024
Other	1,010	50
	29,942	113,558
Application of funds:		
Acquisition of subsidiaries (note 10)	7,366	34,370
Property and equipment	17,222	5,858
Long-term debt	5,874	8,913
Investments	1,309	19
Dividends	—	6,071
	31,771	55,231
(Decrease) Increase in working capital	(1,829)	58,327
Working capital at beginning of year	59,345	1,018
Working capital at end of year	\$57,516	\$ 59,345

Notes to Consolidated Financial Statements

December 31, 1981

1 Amalgamation

The company is a wholly owned subsidiary of Canadian Pacific Enterprises Limited and was formed on January 6, 1981 as the result of the amalgamation of Maple Leaf Mills (Ontario) Inc. ("Ontario"), its subsidiary Maple Leaf Mills Limited ("Old Maple Leaf"), and Rothsay Concentrates Company Limited ("Rothsay"). The amalgamation has been accounted for on a pooling of interests basis and the 1980 comparative consolidated financial statements have been restated to reflect this amalgamation. See also note 11.

Summarized below are the net assets and shareholder's equity of consolidated Ontario and Rothsay as at December 31, 1980:

	Ontario	Rothsay	Total
	(000's omitted)		
Total assets	\$286,819	\$10,224	\$297,043
Total liabilities	181,713	4,166	185,879
Minority interest	7,263	—	7,263
Net assets	\$ 97,843	\$ 6,058	\$103,901
Share capital	\$ 98,024	\$ 3,914	\$101,938
Retained earnings (deficit)	(181)	2,144	1,963
Shareholder's equity	\$ 97,843	\$ 6,058	\$103,901

2 Summary of accounting policies

(a) Basis of consolidation -

The consolidated financial statements include the accounts of all subsidiaries, and also the company's proportionate share of the accounts of Maple Leaf Monarch Company, a 50%-owned unincorporated joint venture (see note 4). Investments in associated companies are accounted for by the equity method.

The principal subsidiaries and the company's interest therein are set out below:

Corporate Foods Limited	63%
Eastern Bakeries Limited	69%
Gordon Young Limited	100%

(b) Inventories -

Grains held for resale, and other inventories where applicable, are valued on the basis of market prices at December 31, including appropriate adjustments for open purchase and sales contracts as well as futures contracts to effectively state these inventories at the lower of cost and replacement cost. Such inventories, where practicable, are hedged to minimize risk due to price fluctuation. All other inventories are valued at the lower of cost and replacement cost.

(c) Depreciation -

Depreciation is calculated on the straight-line basis. The rates used, as set out below, are estimated to be sufficient to depreciate the cost of the assets over their useful lives:

Buildings	2% - 10% per annum
Machinery and equipment	6% - 33% per annum
Automotive equipment	10% - 30% per annum

(d) Pension costs -

Pension costs for current service are charged to earnings on a current basis. Past service costs relating to changes in pension benefits and in actuarial assumptions are amortized over eight years. Past service costs are funded over periods not exceeding fifteen years.

(e) Capital leases -

Leases which transfer substantially all the benefits and risks of ownership of the leased assets are accounted for as acquisitions of assets and the incurrence of obligations.

(f) Income taxes -

Income taxes are accounted for by the tax allocation method, whereby tax provisions are based on accounting income and taxes relating to timing differences between accounting and taxable income are deferred. Investment tax credits are accounted for using the flow-through method.

(g) Foreign exchange -

Long-term debt denominated in U.S. dollars is translated to Canadian dollars at the exchange rate in effect on the date such debt was assumed. Gains or losses on redemption are included in income. Other balances denominated in foreign currency are translated at the current rate.

3 Inventories

	1981	1980
	(000's omitted)	
Grains held for resale	\$ 4,011	\$21,247
Material held for production	25,325	30,187
Finished products	31,323	33,199
	\$60,659	\$84,633

4 Investments in joint venture and associated companies

(a) Maple Leaf Monarch Company -

Summary financial information relating to Maple Leaf Monarch Company is as follows:

	Company's proportionate share	
	1981	1980
	(000's omitted)	
Current assets	\$17,065	\$20,424
Fixed assets	25,757	25,897
	42,822	46,321
Less current liabilities	14,956	16,631
Equity	\$27,866	\$29,690
Revenues	\$77,293	\$75,419
Earnings before income taxes	(1,823)	733

(b) Associated companies -

Summary financial information relating to associated companies as a group is as follows:

	1981		1980	
	Total	Company's share	Total	Company's share
	(000's omitted)			
Assets	\$ 98,545	\$ 36,713	\$ 89,864	\$34,110
Equity	49,520	18,538	40,826	15,671
Revenues	333,529	130,171	244,907	98,006
Net Earnings	10,332	3,530	3,937	1,151

5 Property and equipment

	1981		1980	
	Cost	Accumulated depreciation	Net	Net
	(000's omitted)			
Land and improvements	\$ 12,765	\$ 626	\$ 12,139	\$ 10,396
Buildings	72,650	21,719	50,931	43,475
Equipment	124,817	58,630	66,187	56,275
	\$210,232	\$80,975	\$129,257	\$110,146

6 Long-term debt

	1981	1980
	(000's omitted)	
Maple Leaf Mills Limited - 13% Note Payable to mature May 15, 1986	\$ 5,000	\$ —
17.95% Note Payable to Canadian Pacific Securities Limited due November 15, 1987	12,500	—
Bank term debt to mature January 31, 1990 (interest not to exceed prime rate)	10,000	22,500
11% Sinking Fund Debentures to mature August 1, 1995	16,735	17,333
11% Subordinated Sinking Fund Debentures to mature December 31, 1998 (U.S. \$24,596,000)	28,458	28,458
5¼% Sinking Fund Debentures to mature December 1, 1981	—	5,385
Corporate Foods Limited - 8½% Sinking Fund Debentures Series A due December 15, 1988	2,976	3,159
Obligations under capital leases maturing 1982 to 1989, interest rates - average approximately 9% (see note 9)	3,086	2,848
Other	1,871	2,013
	80,626	81,696
Less long-term debt maturing within one year	4,009	6,594
	\$76,617	\$75,102

The 11% Debentures are redeemable up to an annual aggregate principal amount of U.S. \$1,300,000 at the option of the holders. Estimated annual repayment requirements in the next five years are:

	(000's omitted)	
1982	—	\$4,009
1983	—	3,046
1984	—	4,845
1985	—	4,649
1986	—	4,715

7 Pension costs

Pension expense totalled \$2,800,000 for the year (\$2,500,000 in 1980). During the year, certain pension benefits were improved thereby giving rise to additional unfunded past service obligations of approximately \$1,100,000. Based on the most recent independent actuarial valuation of the company's plans, unfunded past service obligations at December 31 consisted of the following amounts:

	1981	1980
	(000's omitted)	
Accrued in current liabilities	\$ 400	\$ 400
Accrued in non-current liabilities	2,616	2,573
To be amortized	3,200	2,600
	\$6,216	\$5,573

8 Share capital

	1981	1980
	(000's omitted)	
Common shares without par value:		
Authorized - 1,000,000 shares		
Issued - 220,500 shares (1980 - 220,200)	\$102,353	\$101,938

During the year 300 shares were issued for \$415,000 as part of the consideration given on the acquisition of Midland Simcoe Elevator Company Limited, as described in Note 13.

9 Leases

The cost of equipment, leased under agreements classified as capital leases, is included in property and equipment as follows:

	1981	1980
	(000's omitted)	
Machinery and equipment	\$6,206	\$7,105
Less accumulated amortization	2,917	3,750
	\$3,289	\$3,355

Future minimum lease payments under the above capital leases together with the related present value as at December 31, 1981 are as follows:

	(000's omitted)	
1982		\$ 966
1983 - 1986		2,105
Thereafter		903
Total minimum lease payments		3,974
Less amount representing interest		888
Present value of minimum lease payments		3,086
Less amounts due in one year and included in long-term debt maturing within one year		723
		\$2,363

The company also leases property and equipment under agreements which are classified as operating leases. Annual future minimum rentals under operating leases approximate \$4,000,000.

10 Acquisitions

During the year the company made a number of acquisitions, including all of the shares of Gordon Young Limited, a rendering operation, which was acquired in April, 1981. These acquisitions have been accounted for using the purchase method and accordingly the results of operations of the acquired companies from the dates of acquisition have been included in the consolidated statement of earnings.

The net assets acquired and consideration given are summarized as follows:

	(000's omitted)	
Net assets acquired at assigned values:		
Working capital		\$ 2,175
Fixed assets		13,411
Intangibles		541
Long-term debt		(1,131)
		\$14,996
Consideration:		
Cash		\$ 9,126
Long-term debt - 13% Notes Payable		5,000
- Other		455
Common shares		415
		\$14,996

11 1980 Pro-forma consolidated statement of earnings

All of the outstanding common shares of Old Maple Leaf were acquired by Ontario in July, 1980. For comparative purposes the 1980 pro-forma consolidated statement of earnings is presented as though the acquisition of Old Maple Leaf had occurred on January 1, 1980. This statement includes adjustments for pre-acquisition earnings of Old Maple Leaf from January 1, 1980 of \$6,056,000 (before applicable taxes of \$2,025,000) and for expenses of \$2,260,000

(before applicable taxes of \$1,058,000) consisting principally of interest on long-term debt assumed by Ontario on the acquisition, as follows:

	1980		
	Historical	Pro-forma adjustments	Total
	(000's omitted)		
Sales and revenues	\$474,538	\$380,884	\$855,422
Costs and expenses	462,891	377,088	839,979
Earnings before income taxes	11,647	3,796	15,443
Income taxes	4,993	967	5,960
Net earnings	\$ 6,654	\$ 2,829	\$ 9,483

12 Other statutory information

Remuneration of directors and senior officers totalled \$1,871,085 for the year (\$1,340,087 in 1980).

13 Related party transactions

(a) Canadian Pacific companies -

Some of the company's products are transported by CP Rail at published tariff rates.

The company has a loan agreement with Canadian Pacific Securities Limited to obtain up to \$30,000,000 for working capital requirements. This agreement provides for a demand operating line of credit with interest at the prime rate and a revolving line of credit with loan terms of up to one year and with interest based on the lender's cost. The company also participates in a centralized banking system with Canadian Pacific Enterprises Limited.

In November 1981, the company borrowed \$12,500,000 from Canadian Pacific Securities Limited (see note 6).

In January, 1981, the company purchased a grain elevator at Port McNicoll and a management contract with respect to the West Saint John Elevator from a subsidiary of Canadian Pacific Enterprises Limited. The company also acquired all the outstanding shares of Midland Simcoe Elevator Company Limited from Canadian Pacific Enterprises Limited on February 20, 1981. Total consideration given for these transactions was approximately \$3,000,000.

(b) Others -

In the normal course of business, the company sells products and provides management and technical assistance to several of its associated companies and an overseas company in which it participates under a management contract. During the year transactions with these companies accounted for approximately 8% (9% in 1980) of consolidated revenues. Accounts receivable as at December 31, 1981 include \$3,557,000 (\$6,316,000 in 1980) receivable from these companies. In addition, the company purchases at market prices a substantial portion of its soybean meal requirements from Maple Leaf Monarch Company.

14 Business segments

Business segment information is shown in the following table. The agricultural products segment includes the production and sale of animal and poultry feeds, protein meals and oils from animal by-products, merchandising grain and operating grain elevators and farm supply centres. The flour and other food products segment includes the production and sale of flour, consumer grocery products and bakery products as well as providing management assistance to associated companies overseas. The vegetable oil segment consists of processing and selling vegetable oils and meals through Maple Leaf Monarch Company.

Business Segment Information (000's omitted)							
1981	Assets	SALES			Operating Profit	Capital Expenditures	Depreciation
		Gross	Inter-segment	Net			
Agricultural products	\$115,781	\$ 480,292	\$ 61,159	\$419,133	\$15,136	\$10,582	\$ 4,880
Flour and other food products	115,198	479,034	55,474	423,560	30,646	5,585	4,463
Vegetable oil	42,827	91,214	13,921	77,293	(516)	1,055	1,378
Corporate	2,698						
Investments in associated companies	18,538						
	\$295,042	\$1,050,540	\$130,554	\$919,986	\$45,266	\$17,222	\$10,721
1980 Pro-forma							
Agricultural products	\$112,403	\$449,455	\$ 49,089	\$400,366	\$12,536	\$ 6,310	\$ 3,723
Flour and other food products	120,758	429,515	54,251	375,264	21,557	5,889	4,196
Vegetable oil	46,592	86,209	10,790	75,419	1,492	1,131	1,252
Corporate	1,619						
Investments in associated companies	15,671						
	\$297,043	\$965,179	\$114,130	\$851,049	\$35,585	\$13,330	\$ 9,171
Segment operating profit - net earnings				1981	1980		
Business segment operating profit				\$45,266	\$35,585		
Equity in earnings of associated companies				3,530	1,151		
General corporate expenses				(6,247)	(5,412)		
Interest expense				(18,672)	(14,946)		
Minority interest				(1,823)	(935)		
Income taxes				(7,500)	(5,960)		
Net earnings				\$14,554	\$ 9,483		

Export sales of \$143 million (\$129 million in 1980) are included in the above sales figures.

Intersegment sales are made at prices similar to those charged to unaffiliated customers.

