

Maple Leaf Mills Limited

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Annual Report 1984





Maple Leaf Mills Limited is a diversified agriproducts company engaged in the production and sale of industrial and consumer flour and flour-based products including the production and distribution of baked goods. Maple Leaf also operates one of the largest rendering businesses in Canada, and a fully integrated poultry business in Ontario. It is one of Canada's largest oil seed processors, produces and markets a complete range of animal and poultry feeds, and merchandises and distributes grain through a network of country and terminal grain elevators principally in Ontario.

The Company, with roots in the flour milling business dating back to 1836, is a wholly-owned subsidiary of Canadian Pacific Enterprises Limited.

FRONT COVER:

The front cover depicts the diversification of the operations and products of Maple Leaf Mills Limited.

Directors

R.G. Dale	J.F. Hankinson
R.S. DeMone	J.W. Kerr
S.E. Eagles	J.H. Panabaker
L.Y. Fortier	W.G. Wilson

Officers

R.G. Dale	Chairman of the Board
R.S. DeMone	President and Chief Executive Officer
A.H. James	Executive Vice-President
W.E. Paterson	Senior Vice-President, International
J.J. Wigle	Senior Vice-President, Finance and Planning
G.B. Ballantyne	Vice-President, Rendering
J.W.S. Cargill	Vice-President, Administration
W.F. Carroll	Vice-President, Grain
N.E. Florakas	Vice-President, Masterfeeds
R.N. Kernohan	Vice-President, Flour
H.G. Jones	Vice-President, Poultry
J.W. MacDonald	Vice-President, Grocery Products
W.G. Milliken	Vice-President, Commodity Trading
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.G. Hickingbottom, President and Chief Executive Officer,
Eastern Bakeries Limited

D.G. Ottaway, President and Chief Executive Officer,
Maple Leaf Monarch Company

H.G.L. Powell, President and Chief Executive Officer,
McGavin Foods Limited

Head Office

2300 Yonge Street,
P.O. Box 710, Station K
Toronto, Ontario M4P 2X5



(Left)
Standing- Robert G. Dale,
Chairman of the Board; seated—
Robert S. DeMone, President and
Chief Executive Officer

(Below)
Standing L-R—J.W. Kerr,
L. Y. Fortier, J.H. Panabaker,
J.F. Hankinson
Seated L-R— W.G. Wilson, S.E.
Eagles, R.G. Dale, R.S. DeMone



Net earnings of \$15.7 million were up 4% from the \$15.1 million earned in 1983 notwithstanding a decline in sales. Sales of \$973 million were down 5% from the record level set in 1983, mainly due to reduced activity in grain trading.

Sales and earnings increased in the Flour and Other Food Products segment while they declined in the Agricultural Products segment.

FLOUR AND OTHER FOOD PRODUCTS

Flour Division earnings were very favourable and reflected a heavier than usual export movement. The domestic market has been and continues to be very competitive. However, our policy of rationalizing productive capacity and improving productivity has enabled the Division to retain unit profitability in the face of the severe competition.

The market for Grocery Products was a very difficult one, especially for prepared mixes and earnings decreased from the previous year.

Our Associated Bakeries as a group again had strong earnings and directly contributed \$4.9 million to net earnings compared with \$4.8 million in 1983. Corporate Foods Limited results reflect good earnings from Unipain Inc. and Dough Delight Limited and volume and productivity gains in Ontario. On December 28, 1984, Unipain Inc., in which Corporate Foods held a 25% interest, merged with Le Groupe Samson Inc. to become Multimarques Inc., Canada's largest bakery. Corporate Foods will retain a 25% interest in the new company. Eastern Bakeries Limited results also reflect cost saving and productivity improvement projects but the earnings of McGavin Foods Limited are disappointing.

AGRICULTURAL PRODUCTS

Masterfeeds had another difficult year in spite of continuing efforts to pare down the operations to a profitable core. During the year the Division either closed or significantly reduced its retail store operations and reorganized on a functional rather than a geographic basis. As a result, the Division is well positioned to take advantage of a turnaround in the agricultural economy.

Poultry Products Division had a very successful year as it benefitted from the steadily increasing per capita consumption of chicken. The Stillmeadow operation has been equipped to enable it to capitalize on the rapidly increasing demand for boneless poultry products including finger foods.

Rendering Division achieved record sales and earnings. Tight world supplies of oils pushed tallow and edible product prices

to all time highs and more than offset the effect of depressed protein prices caused by an oversupply of vegetable meal.

Grain Division also had an excellent year as earnings improved significantly from the depressed levels of the last two years. Weather conditions for Ontario grain were much more favourable and the higher throughput of Western export grain is reflected in the improved earnings.

The International Division's Caribbean operations in Barbados and St. Vincent had excellent results. However, these were offset by losses incurred in grain trading operations as a worldwide surplus of grains caused a very competitive market place. Because of poor prospects, the Geneva grain office was closed and the Minneapolis grain office was scaled down.

Maple Leaf Monarch Company had a better year as soya margins improved due to a firmer oil basis resulting from a worldwide tight oil supply. Strong earnings from the oil importation business helped soften the impact of an eight week strike at the Windsor plant.

SUMMARY

The results of the past year are a testimonial to the excellent efforts of all personnel. Management and staff continue to work together on Quality of Work Life and Health and Safety programmes. On the job accidents have declined 45% over the last two years and productivity improvements have been made in many areas of the Company. The Company is well positioned in all its areas of expertise.

On behalf of the Board of Directors.



Robert G. Dale
Chairman of the Board



Robert S. DeMone
President and Chief Executive Officer

March 7, 1985



Auditors' Report

To the Shareholder of
Maple Leaf Mills Limited:

We have examined the consolidated balance sheet of Maple Leaf Mills Limited as at December 31, 1984 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1984 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.

Price Waterhouse

Chartered Accountants

February 19, 1985
Toronto, Canada

Consolidated Financial Statements

for the year ended December 31, 1984

Consolidated Statement of Earnings

for the year ended December 31, 1984
(000's omitted)

	1984	1983
Sales and revenues:		
Sales and operating revenues	\$972,833	\$1,021,378
Interest, investment and other income	3,086	6,397
Equity in net earnings of associated companies	3,687	3,489
	979,606	1,031,264
Costs and expenses:		
Cost of sales and operating expenses	853,748	910,677
Selling and administrative expenses	66,842	62,635
Depreciation and amortization	15,339	14,402
Interest on long-term debt	11,990	11,782
Interest on short-term debt	3,417	3,893
Minority interest	2,684	2,547
	954,020	1,005,936
Earnings before income taxes	25,586	25,328
Income taxes (note 8)	9,900	10,200
Net earnings	\$ 15,686	\$ 15,128

Consolidated Statement of Retained Earnings

for the year ended December 31, 1984
(000's omitted)

	1984	1983
Retained earnings at beginning of year	\$30,384	\$22,156
Net earnings	15,686	15,128
	46,070	37,284
Dividends	7,000	6,900
Retained earnings at end of year	\$39,070	\$30,384



Consolidated Balance Sheet

December 31, 1984
(000's omitted)

Assets

	1984	1983
Current:		
Short-term deposits and investments, at cost which approximates market	\$ 9,339	\$ 11,709
Due from affiliated companies	4,039	311
Accounts receivable	65,718	70,806
Inventories (note 2)	71,820	92,069
Prepaid expenses	1,616	1,706
Total current assets	152,532	176,601
Investments in associated companies (note 3)	26,581	21,869
Property and equipment (note 4)	170,891	174,311
Other assets	13,165	9,839
	\$363,169	\$382,620

Liabilities

	1984	1983
Current:		
Bank indebtedness	\$ 7,268	\$ 18,083
Due to affiliated companies	9,230	18,084
Accounts payable and accrued liabilities	55,519	69,157
Income and other taxes payable	2,854	2,204
Dividend payable	3,500	3,000
Long-term debt maturing within one year	6,655	6,107
Total current liabilities	85,026	116,635
Long-term debt (note 5)	89,180	89,563
Accrued pension costs (note 6)	2,513	2,596
Deferred income taxes	31,723	29,602
Minority interest in subsidiaries:		
Preference shares	1,225	1,225
Common shares	11,776	10,262
	13,001	11,487
Shareholder's equity:		
Share capital (note 7)	102,353	102,353
Retained earnings	39,070	30,384
Foreign exchange adjustment (note 1)	303	—
	141,726	132,737
	\$363,169	\$382,620

On behalf of the Board:

Director
R.S. DeMone



Director
J.W. Kerr





Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1984
(000's omitted)

	1984	1983
Source of funds:		
Net earnings	\$15,686	\$15,128
Depreciation and amortization	15,339	14,402
Other	1,619	264
Funds from operations	32,644	29,794
Long-term debt issued	3,332	11,051
Sale of property and equipment	2,002	2,304
Investments realized	1,354	1,660
	39,332	44,809
Application of funds:		
Property and equipment	13,276	19,064
Long-term debt	7,061	7,427
Dividends	7,000	6,900
Investments	4,455	1,552
Acquisition of subsidiaries	—	12,668
	31,792	47,611
Increase (decrease) in working capital	7,540	(2,802)
Working capital at beginning of year	59,966	62,768
Working capital at end of year	\$67,506	\$59,966

Notes to Consolidated Financial Statements

December 31, 1984

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

Corporate Foods Limited	63%
Eastern Bakeries Limited	69%
Maple Leaf Mills Inc.	100%
Phenix Flour Limited	100%

Investments in associated companies are accounted for by the equity method. The principal associated companies and the company's direct and indirect interest therein are set out below:

Barbados Mills Limited	40%
East Caribbean Flour Mills Limited	40%
McGavin Foods Limited	40%
Multimarques Inc.	20%

(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. All other inventories are valued at the lower of cost and net realizable value. The company hedges certain commodity transactions and inventories to minimize risk due to market fluctuations.

(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% — 5% per annum
Machinery and equipment	6% — 33% per annum
Automotive equipment	10% — 25% per annum

(d) Pensions—

Pension costs for current service are charged to earnings and funded as they accrue. Past service costs relating to changes in pension benefits and in actuarial assumptions are amortized and funded over periods not exceeding fifteen years.

(e) 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.

(f) Foreign exchange—

The accounts of self-sustaining foreign operations are translated using the current rate method, under which assets and liabilities are translated at the exchange rate prevailing at the year end, and revenues and expenses at average rates of exchange during the year. For such operations exchange gains or losses are deferred in shareholder's equity until realized.

Long-term debt of the company denominated in foreign currencies is translated at the prevailing exchange rate. The resulting unrealized exchange gains or losses are included in other

assets and amortized over the remaining term of the debt.

Prior to January 1, 1984, the company followed the current/non-current method of exchange translation and recognized all exchange gains and losses in earnings. The change in accounting did not have a material effect on earnings.

2 Inventories

	1984	1983
	(000's omitted)	
Grains held for resale	\$ 8,607	\$15,192
Material held for production	35,588	45,617
Finished products	27,625	31,260
	\$71,820	\$92,069

3 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	
	1984	1983
	(000's omitted)	
Current assets	\$ 21,451	\$ 30,919
Fixed assets	24,190	25,115
	45,641	56,034
Less current liabilities	17,612	27,045
Equity	\$ 28,029	\$ 28,989
Revenues	\$117,176	\$107,666
Earnings (loss) before income taxes	\$ 615	\$ (140)

(b) Associated companies—

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

	1984		1983	
	Total	Company's Share	Total	Company's Share
	(000's omitted)			
Assets	\$160,933	\$ 47,949	\$116,983	\$ 42,064
Equity	87,139	26,581	58,848	21,869
Revenues	343,068	127,791	325,734	123,208
Net earnings	12,602	3,687	10,921	3,489

4 Property and equipment

	1984		1983	
	Accumulated Cost depreciation		Net	Net
	(000's omitted)			
Land and improvements	\$ 20,468	\$ 1,107	\$ 19,361	\$ 19,821
Buildings	96,290	28,612	67,678	71,102
Equipment	165,745	81,893	83,852	83,388
	\$282,503	\$111,612	\$170,891	\$174,311



5 Long-term debt

	1984	1983
	(000's omitted)	
Maple Leaf Mills Limited—		
10% Note Payable to mature April 28, 1986	2,000	53,000
17.95% Note Payable to Canadian Pacific Securities Limited due November 15, 1987	12,500	12,500
Bank term debt to mature January 31, 1988 (interest not to exceed prime rate)	8,000	10,000
16.575% Note Payable to Canadian Pacific Securities Limited due April 15, 1989	12,500	12,500
12.075% Note Payable to Canadian Pacific Securities Limited due May 15, 1990	10,000	10,000
11% Sinking Fund Debentures to mature August 1, 1995	14,296	14,887
11% Subordinated Sinking Fund Debentures to mature December 31, 1998 (U.S. \$20,696,000)	27,354	25,449
Corporate Foods Limited—		
8½% Sinking Fund Debentures to mature December 15, 1988	2,249	2,510
Bank term debt to mature March 31, 1991 (interest not to exceed prime rate)	3,150	—
Obligations under capital leases maturing 1985 to 1989 (interest rates average approximately 9½%)	2,514	3,080
Other	1,272	1,744
	95,835	95,670
Less amounts maturing within one year	6,655	6,107
	89,180	89,563

Estimated annual repayment requirements in the next five years are:
(000's omitted)

1985	—	\$ 6,655
1986	—	6,982
1987	—	19,238
1988	—	6,580
1989	—	15,712

6 Pension costs

Pension expense totalled approximately \$3,100,000 in both 1984 and 1983. During the year, certain pension benefits were improved, including plan amendments to adopt final earnings benefits by Corporate Foods Limited and Eastern Bakeries Limited, thereby giving rise to additional unfunded past service obligations of approximately \$4,400,000. Based on the most recent independent actuarial valuations of the companies' plans, and subsequent improvements in benefits, unfunded obligations at December 31, consisted of the following amounts:

	1984	1983
	(000's omitted)	
Accrued in current liabilities	\$ 570	\$ 900
Accrued in non-current liabilities	2,513	2,596
To be expensed in future years	4,372	500
	7,455	3,996

7 Share capital

Authorized share capital consists of an unlimited number of common shares without par value of which 220,500 shares have been issued.

8 Income taxes

Income taxes charged to earnings in 1984 include deferred taxes of \$3,265,000 (\$2,817,000 in 1983).

The following table reconciles the statutory federal and provincial income tax rate to the consolidated effective tax rate on earnings before income taxes:

	1984	1983
Combined basic federal and provincial income tax rate	49.3%	50.0%
Minority interest	5.3	5.1
Equity in net earnings of associated companies	(7.3)	(7.0)
3% Inventory allowance	(4.6)	(3.8)
Manufacturing and processing tax credit	(3.9)	(4.0)
Investment tax credit	(1.5)	(2.5)
Other	1.4	2.5
Effective tax rate	38.7%	40.3%

9 Commitment and contingency

On December 28, 1984, Unipain Inc., a 25%-owned associated company of Corporate Foods Limited, amalgamated with Le Groupe Samson Inc., to form Multimarkes Inc. On that date Corporate Foods invested \$3,185,000 and on February 16, 1985 an additional \$5,000,000 to bring its interest in Multimarkes up to 25%.

Pursuant to the above transaction certain shareholders of Multimarkes Inc. are entitled to put their shares to the company. The maximum obligation of the company is \$8,750,000 subject to adjustment for changes in the net worth of Multimarkes Inc., as defined, up to December 31, 1990.

10 Related party transactions

(a) The company participates in a centralized banking system with its parent, Canadian Pacific Enterprises Limited, and borrows under revolving term loan agreements with Canadian Pacific Securities Limited. Interest charged under these agreements amounted to \$1,946,000 in 1984 (\$1,624,000 in 1983). Such interest is based on the lender's cost of borrowing.

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

(b) During the year, in the normal course of business, the company made sales to and purchases from associated companies and Maple Leaf Monarch Company amounting to \$49,672,000 (\$61,873,000 in 1983) and \$4,018,000 (\$3,517,000 in 1983) respectively.

11 Segment information

Segment information is shown in the following table. The agricultural products segment includes the production of animal and poultry feeds, hatching, growing and processing poultry, rendering animal and poultry by-products, merchandising grain and operating grain elevators, providing management assistance to associated companies overseas, and processing oil seeds through Maple Leaf Monarch Company. The flour and other food products

segment includes the production of flour, consumer grocery products and bakery products.

Reconciliation of segment operating profit to net earnings:

	1984	1983
	(000's omitted)	
Business segment operating profit	\$49,318	\$46,962
Equity in earnings of associated companies	3,687	3,489
General corporate expenses	(9,328)	(6,901)
Interest expense	(15,407)	(15,675)
Minority interest	(2,684)	(2,547)
Income taxes	(9,900)	(10,200)
Net earnings	\$15,686	\$15,128

Segment Information (000's omitted)

1984	SALES				Operating Profit	Capital Expenditures	Depreciation
	Assets	Gross	Inter-segment	Net			
Agricultural products	\$172,264	\$ 610,081	\$ 7,597	\$ 602,484	\$18,070	\$ 5,785	\$ 9,186
Flour & other food products	156,364	377,306	6,957	370,349	31,248	7,094	6,028
Corporate	7,960					397	125
Investments in associated companies	26,581						
	\$363,169	\$ 987,387	\$14,554	\$ 972,833	\$49,318	\$13,276	\$15,339
1983							
Agricultural products	\$208,466	\$ 693,639	\$ 4,641	\$ 688,998	\$18,589	\$ 6,275	\$ 8,348
Flour & other food products	148,475	339,153	6,773	332,380	28,373	12,742	5,857
Corporate	3,810					47	197
Investments in associated companies	21,869						
	\$382,620	\$1,032,792	\$11,414	\$1,021,378	\$46,962	\$19,064	\$14,402

Export sales of \$116,000,000 (\$139,000,000 in 1983) are included in the above sales figures. Intersegment sales are made at prices similar to those charged to unaffiliated customers.

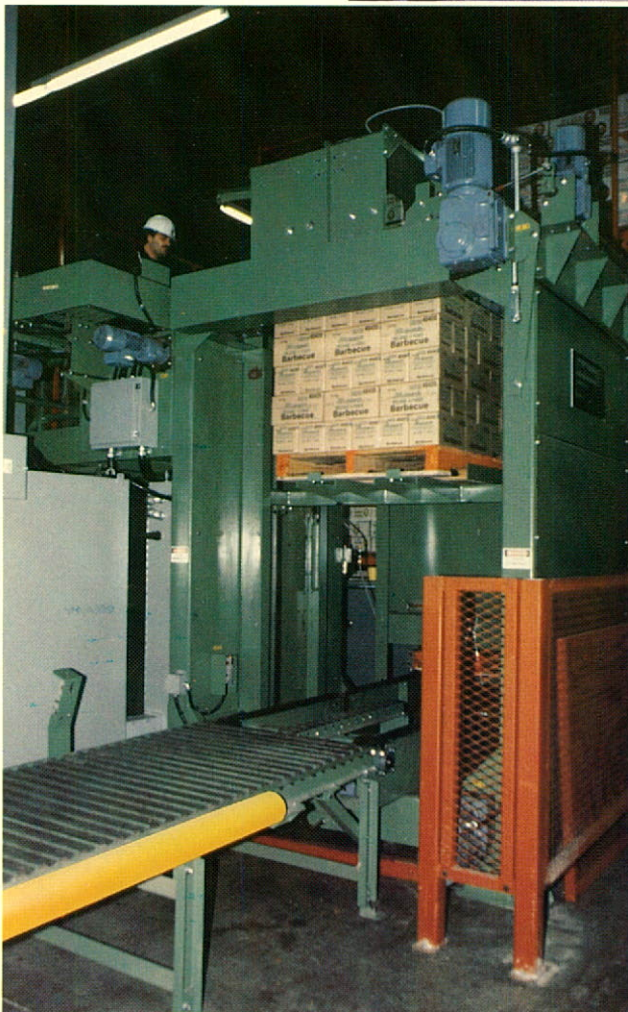
Included in the 1984 figures are assets of \$2,231,000 (\$11,048,000 in 1983), gross sales of \$58,557,000 (\$168,684,000 in 1983), net sales of \$51,682,000 (\$161,315,000 in 1983), and an operating profit of \$1,064,000 (\$671,000 loss in 1983) relating to U.S. operations.



(Below) Stillmeadow Chicken Fingers



(Below) The Grocery Products Division's new computerized palletizing unit



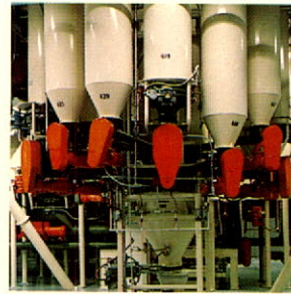
(Left) The Strathroy Country Elevator Complex



(Below Left) The Moorefield Rendering Plant and Truck Fleet



(Left) Delivering Dempster's Fresh Bakery Products



(Above) Calgary Bakery Mix Plant



(Above) North West Silos Limited, Northern Ireland



(Above) The Grain Division's new dome fertilizer storage facility at Sarnia, Ontario



(Left) The Calgary Bakery Mix Plant being officially opened by the Honourable Connie Osterman, Alberta's Minister of Consumer and Corporate Affairs

Maple Leaf Mills' diverse agriproducts businesses and principal brands include the following:

Flour	Milling and industrial bakery mix operations across Canada serving both domestic and export markets as well as milling operations in the Caribbean.	Monarch, Purity, Hi-Rise, Three Stars, Bajan Pride and Cream of the Islands.
Baked Goods	Bakery operations from coast to coast in Canada providing fresh and frozen products, principally bread and rolls.	Dempster's, Sunshine, Gainsborough, Butter-nut, Sunny Bee, Karnes, McGavin and Homestead.
Grocery Products	Manufacturer of family flour, convenience flour-based baking mixes, cereals, beverage mixes and pet foods.	Monarch, Purity, and Cream of the West flour, Monarch cake mixes, Red River cereals, Jolly Miller and Thirst Ade beverage mixes, and Master pet foods.
Rendering	Plants throughout Central and Eastern Canada producing tallow and protein meals for the animal feed, soap and chemical industries, and lard and tallow for the bakery and restaurant trades.	Rothsay, Laurenco and Laurentien.
Poultry	Operations, located in Ontario, include the production of hatching eggs, day-old chicks, chickens, turkeys, fresh and frozen poultry products and oven-ready entrées, as well as growing and processing operations in the Caribbean.	Tend-R-Fresh, Pinecrest, Stillmeadow and Super Chick.
Grain	Merchandising Ontario grains and crop inputs through a network of country elevators, and handling Western grains and Ontario wheat through Company owned terminals.	Terminals at Midland, Port McNicoll, and Sarnia in Ontario, West Saint John in New Brunswick, Barbados and Northern Ireland.
Oil Seed Processing	One of Canada's largest oil seed processors serving the domestic and export markets. Processes soya, flax and canola seed into a wide variety of protein meals and oils for industrial and edible use.	Maple Leaf Monarch Company.
Animal and Poultry Feeds	Plants across Canada producing a complete line of animal and poultry feeds for domestic and export markets as well as manufacturing plants in the Caribbean.	Masterfeeds, Phoenix, East Caribbean Feeds and Sonuan.

Major subsidiaries and affiliates are as follows:

	Ownership	Business
Corporate Foods Limited	63%	Baked Goods
Eastern Bakeries Limited	69%	Baked Goods
Maple Leaf Monarch Company	50%	Oil Seed Processing
McGavin Foods Limited	40%	Baked Goods
Multimarques Inc.	25%	Baked Goods
Phenix Flour Limited	100%	Flour
Barbados Mills Limited	40%	Flour, Feed and Poultry
East Caribbean Flour Mills Limited	40%	Flour, Feed
Maple Leaf Mills Inc.	100%	Grain
North West Silos Limited	50%	Grain
Société de Nutrition Animale, S.A.	33%	Feed

