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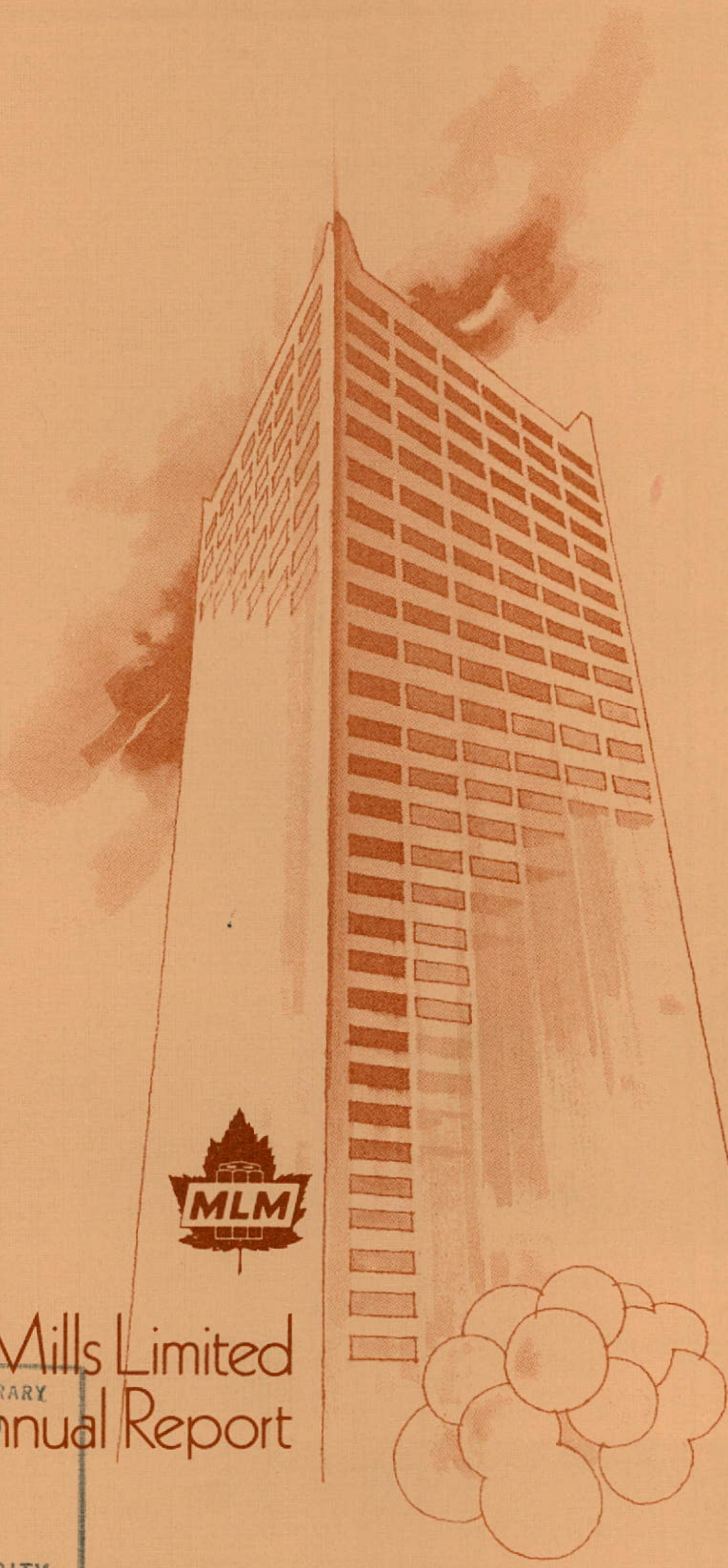
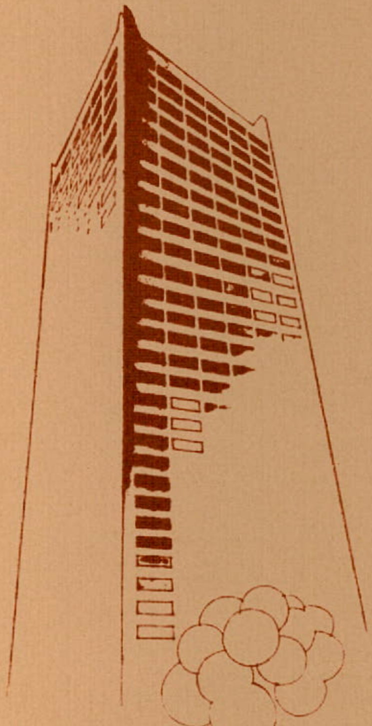


Maple Leaf Mills Limited
1977 Annual Report



COVER ILLUSTRATION

Maple Leaf Mills Limited, in November 1977, moved its Head Office from Queen's Quay, Toronto to 2300 Yonge Street, Toronto.

The cover illustration depicts this new modern building in which Maple Leaf is the major tenant.

Annual Report to Shareholders Maple Leaf Mills Limited

for the year ended December 31, 1977

DIRECTORS

R.G. Dale
J. H. Flom
J. A. Geller
J. D. Leitch
F. H. Logan
G. M. MacLachlan
J. A. McCleery
B. A. Norris
L. J. Risi, Jr.
D. G. Scott
J. H. Taylor

OFFICERS

Chairman of the Board, President and Chief Executive Officer
R. G. Dale

Senior Vice-Presidents

H. W. Blakely	Planning & Corporate Services
W. E. Paterson	International Operations
P. W. Strickland	Corporate Development
J. A. Telfer	Domestic Operations
J. J. Wigle	Finance

Vice-Presidents

A. H. James	Flour
J. W. MacDonald	Grocery Products
G. S. MacDonell	Agriculture
S. A. Miller	Labour Relations
W. G. Milliken	Vegetable Oil
C. L. Turner	Grain

Financial

D. D. Brown	Corporate Controller
D. E. Knievel	Assistant Controller, Policy and Procedures
P. Kriwoy	Assistant Secretary
R. E. Lennox	Secretary-Treasurer

ASSOCIATED BAKERIES

President and Chief Executive Officers

N. T. Currie	Corporate Foods Limited
D. Devine	McGavin ToastMaster Limited
D. G. Hickingbottom	Eastern Bakeries Limited

HEAD OFFICE

2300 Yonge Street
Toronto, Ontario M4P 1E4

TRANSFER AGENT AND REGISTRAR

Crown Trust Company
Toronto and Montreal

President's Letter

TO THE SHAREHOLDERS

The Company's sales and earnings again reached record levels for the year ended December 31st, 1977.

Net earnings advanced to $2.91 per share, an increase of 28%, with sales and revenues increasing by 8.3% to $575,172,000.

Improvement in the operating results of the Grain, Flour and International Divisions more than offset lower earnings in the Agricultural and Grocery Products Divisions during the year. The Company's Vegetable Oil Division maintained its level of earnings in 1977 and the results of our Associated Bakery companies were generally satisfactory.

While certain factors which favourably affected earnings in the Flour and International Divisions during the year are not expected to be present in 1978, we are confident that the Company will again produce satisfactory results in the months ahead.

In November 1977, Norin Corp. through its wholly owned subsidiary, Norin Canada Holdings Inc., made a tender offer for the remaining publicly held common shares of Maple Leaf Mills Limited and as of this date Norin owns or controls approximately 95% of the Company's shares.

Our close relationship with Norin Corp. and the challenges and opportunities that this presents, is viewed enthusiastically by all at Maple Leaf and we look forward confidently to the future.

The successes of the past year are due in no small measure to the dedication and support of our employees at every level of the Company and their efforts are greatly appreciated.

R G Dale

Robert G. Dale
President & Chief Executive Officer

March 14, 1978

Consolidated Financial Statements

December 31, 1977

Auditors' Report

To the Shareholders of Maple Leaf Mills Limited:

We have examined the consolidated balance sheet of Maple Leaf Mills Limited as at December 31, 1977 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, 1977 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.

Clarkson, Gordon & Co.

Chartered Accountants

Toronto, Canada,
March 2, 1978.

Consolidated Statement of Earnings

for the year ended December 31, 1977

	1977	1976
	(000's omitted)	
Sales and revenues:		
Sales and operating revenues	$575,172	$530,876
Interest, investment and other income	2,377	2,618
Gain on sale of properties	1,369	168
	578,918	533,662
Costs and expenses:		
Cost of sales and operating expenses	511,521	474,964
Selling and administrative expenses	34,814	31,981
Depreciation	4,277	3,807
Interest on bankers' advances and notes	177	81
Interest on long-term debt	3,181	3,139
Minority interest	876	822
	554,846	514,794
Earnings before income taxes and equity in net earnings of joint ventures	24,072	18,868
Income taxes (note 8)	10,200	8,900
Earnings before equity in net earnings of joint ventures	13,872	9,968
Equity in net earnings of joint ventures	326	1,129
Net earnings	$ 14,198	$ 11,097
Net earnings per common share	$ 2.91	$ 2.29

Consolidated Statement of Retained Earnings

for the year ended December 31, 1977

	1977	1976
	(000's omitted)	
Retained earnings at beginning of year	$ 77,176	$ 69,363
Net earnings	14,198	11,097
	91,374	80,460
Dividends	3,501	3,284
Retained earnings at end of year	$ 87,873	$ 77,176

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1977

	1977	1976
	(000's omitted)	
Source of funds:		
Funds generated from operations	$ 18,608	$ 15,971
Obligations under capital leases (note 12)	1,761	
Sale of property and equipment	1,227	982
Investments realized	604	1,464
Common shares issued	344	77
	22,544	18,494
Application of funds:		
Investments	7,065	2,084
Property and equipment	6,025	9,024
Equipment under capital leases	2,560	
Dividends	3,501	3,284
Long-term debt retired	705	665
Other	158	(124)
	20,014	14,933
Increase in working capital	2,530	3,561
Working capital at beginning of year	73,017	69,456
Working capital at end of year	$ 75,547	$ 73,017
Analysis of increase in working capital:		
Increase (decrease) in current assets –		
Short-term investments	$ (837)	$ 2,254
Accounts receivable	10,011	197
Deposits with The Canadian Wheat Board less banker's advances applicable thereto	(7,568)	738
Inventories	13,702	4,444
Prepaid expenses	(33)	(127)
	15,275	7,506
Less increase (decrease) in current liabilities –		
Bank indebtedness and notes payable	7,770	2,088
Accounts and taxes payable	5,957	2,200
Other	(982)	(343)
	12,745	3,945
Increase in working capital	$ 2,530	$ 3,561

Consolidated Balance Sheet December 31, 1977

Assets

	1977	1976
	(000's omitted)	
Current:		
Short-term deposits and investments, at cost which approximates market	$ 6,420	$ 7,257
Accounts receivable	51,785	41,774
Deposits with The Canadian Wheat Board (note 2)		11,133
Bankers' advances applicable thereto		(3,565)
Inventories (note 2)	62,379	48,677
Prepaid expenses	1,019	1,052
Total current assets	121,603	106,328
Investments:		
Mortgages and other investments	1,798	1,434
Joint ventures (note 3)	16,165	9,385
	17,963	10,819
Property and equipment (note 4)	48,437	44,577
Goodwill and other assets	971	1,157
	$188,974	$162,881

Liabilities

	1977	1976
	(000's omitted)	
Current:		
Bank indebtedness (note 5)	$ 12,595	$ 5,334
Notes payable	2,096	1,587
Accounts payable and accrued liabilities	25,300	22,857
Income and other taxes payable	4,046	532
Dividends payable	233	870
Allowance for disturbance costs (note 10)	1,786	2,131
Total current liabilities	46,056	33,311
Long-term debt (note 6)	31,884	30,889
Accrued pension costs (note 7)	2,200	1,890
Deferred income taxes (note 8)	8,909	8,359
Minority interest in subsidiaries:		
Preference shares	1,225	1,384
Common shares	4,391	3,780
	5,616	5,164
Shareholders' equity:		
Share capital (note 9)	5,830	5,486
Contributed surplus	606	606
Retained earnings (note 6)	87,873	77,176
	94,309	83,268
	$188,974	$162,881

On behalf of the Board:

Director

Director

Notes to Consolidated Financial Statements

December 31, 1977

1. Summary of accounting policies

(a) Principles of consolidation –

The consolidated financial statements include the accounts of all subsidiaries. The principal subsidiaries and the company's interest therein are set out below:

Canadian Bakeries Limited	99%
Corporate Foods Limited	63%
Eastern Bakeries Limited	69%

The excess of cost over book value of net assets of subsidiaries at dates of acquisition has been allocated to property and goodwill. Depreciation has been charged against earnings on amounts allocated to depreciable assets. Goodwill is amortized over its estimated life or forty years, whichever is less.

The equity method of accounting is used for investments in joint ventures. Mortgages and other investments are stated at cost less provisions for losses.

(b) Inventories –

Inventories are valued at the lower of average cost and replacement cost. Grains held for resale, and other inventories where practicable, are hedged to minimize risk due to price fluctuations.

(c) Sales and revenue recognition –

Sales of products and services to customers are reported in operating results when title to products passes to the customer and when services are performed, except foreign management fee revenues which are recognized when collection becomes reasonably assured.

(d) Depreciation –

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

Buildings	2% - 10% per annum
Machinery and equipment	6⅔% - 30% per annum
Automotive equipment	20% - 30% per annum

(e) 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 actuarial assumptions are amortized over eight years. Past service costs are funded over periods not exceeding fifteen years.

2. Inventories

Inventories consist of the following:

	1977	1976
	(000's omitted)	
Grains held for resale	$15,046	$ 8,683
Material held for production	26,475	17,454
Finished products	20,858	22,540
	$62,379	$48,677

On November 1, 1977 The Canadian Wheat Board changed its former agency system for marketing western Canadian milling wheat under which the Board retained ownership of the wheat and paid the company interest and storage charges until the wheat was milled. The company is now required to purchase such wheat at an earlier stage and to bear interest and storage costs from the time of purchase.

3. Joint ventures

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

McGavin ToastMaster Bakeries Limited	40%
National Flour Mills Limited	36
Pinecrest Foods Limited	50
X L Feeds, Ltd.	50
Maple Leaf Monarch Company	50
East Caribbean Flour Mills Limited	40
Barbados Mills Limited	40

Corporate Foods Limited, a 63% owned subsidiary, has principal joint ventures as set out below:

Purity Bakeries Limited	50%
Robin Le Pain Moderne Inc.	25
Durivage Inc.	25

Summary financial information for all joint ventures as a group, including those with assets still under construction, is as follows:

	1977		1976	
	(000's omitted)			
	Total	Company's Share	Total	Company's Share
Assets	$69,510	$28,267	$49,185	$18,963
Equity	38,620	16,165	24,322	9,385
Revenues	133,404	48,475	131,144	50,610
Net earnings	1,205	326	2,277	1,129

4. Property and equipment

	1977			1976
	(000's omitted)			
	Cost	Accumulated Depreciation	Net	Net
Land and improvements	$ 3,688	$ 283	$ 3,405	$ 3,359
Buildings	39,090	16,951	22,139	21,310
Equipment	67,604	44,711	22,893	19,908
	$110,382	$61,945	$48,437	$44,577

5. Bank indebtedness

Bank indebtedness is secured by assignments of accounts receivable and security on inventories.

6. Long-term debt

Long-term debt, excluding amounts due within one year included in accounts payable and accrued liabilities, consists of the following:

	1977	1976
	(000's omitted)	
Maple Leaf Mills Limited –		
5¾% Sinking Fund Debentures to mature December 1, 1981	$ 6,412	$ 6,923
11⅝% Sinking Fund Debentures to mature August 1, 1995	20,000	20,000
Corporate Foods Limited –		
8½% Sinking Fund Debentures, Series A, due December 15, 1988	3,534	3,692
Obligations under capital leases	1,761	
Other	177	274
	$31,884	$30,889

Estimated annual repayment requirements, including obligations under capital leases, in the next five years are:

(000's omitted)

1978 – $ 750
1979 – $1,900
1980 – $1,850
1981 – $6,850
1982 – $1,250

The trust indentures securing the company's debentures contain covenants restricting the payment of dividends. Under the most restrictive covenant the amount of retained earnings available for payment of dividends was approximately $31,000,000 as at December 31, 1977.

7. Pension costs

Pension expense totalled $1,900,000 for the year ($1,800,000 in 1976). During the year, certain pension benefits (including payments to retired employees) were improved thereby giving rise to additional unfunded past service obligations of approximately $1,300,000. Based on the most recent independent actuarial valuation of the company's plan, and subsequent improvements, unfunded past service obligations at December 31 consisted of the following amounts:

	1977	1976
	(000's omitted)	
Accrued in current liabilities	$ 300	$ 260
Accrued in non-current liabilities	2,200	1,890
To be expensed	2,300	1,850
	$4,800	$4,000

8. Income taxes

Income taxes charged to earnings in 1977 include deferred taxes of $550,000 ($1,500,000 in 1976). The proportionately lower income tax provision for 1977 results mainly from the 3% inventory allowance, provided in recent changes to the Income Tax Act to give partial relief for the impact of inflation, which reduced taxes by approximately $635,000 and from capital gains on sale of property.

9. Share capital

	1977	1976
	(000's omitted)	
Preference shares Class A, par value $100 each – Authorized – 75,000 shares, none issued		
Common shares without par value – Authorized – 12,000,000 shares, issued 4,905,012 (1976 – 4,847,862) of which 16,170 are held by a subsidiary	$5,830	$5,486

At the Annual and General Meeting held on May 17, 1977, shareholders confirmed a special resolution providing for the subdivision of each common share into three shares. The effective date of the subdivision was July 9, 1977.

During the year, 57,150 common shares (as subdivided) were issued under the employees' stock option plan for $344,000. There were no options outstanding at year end.

10. **Expropriation and relocation**

In May 1973, the Government of Canada expropriated the company's Queen's Quay, Toronto property. Subsequently, the company received, without prejudice to its rights to claim additional compensation, $12.2 million for the expropriated property. In addition, a provisional allowance for disturbance costs was received, which amount less costs incurred to date is included in current liabilities.

The company expects that it will receive additional compensation in connection with the expropriation as a result of an action commenced in the Federal Court of Canada seeking additional compensation including an amount for machinery and equipment not included in the Government's initial offer. Settlement negotiations are in progress.

The company also received from the Government a licence to occupy the expropriated premises which expired November 30, 1977. The company's feed and pet food facilities and head office, previously located on the premises, have been relocated. The company is continuing to operate its vegetable oil facilities and transfer grain elevator located on the premises and is negotiating an extension of this licence to enable the company to continue to use these facilities into 1979. The company has also proposed terms under which it would continue to operate the transfer elevator under lease on a longer term basis. This elevator operation will be discontinued if the company is unable to negotiate a satisfactory lease.

In January 1976, the company entered into an agreement providing for an equal partnership with Lever Brothers Limited to establish a vegetable oil extraction and refining operation at Windsor, Ontario. These facilities are scheduled for completion in 1979 and will replace the Queen's Quay vegetable oil facilities.

11. **Capital expenditure plans**

The principal projects included in capital expenditure plans and their estimated completion costs are as follows:

Vegetable oil plant – This is the company's share of the balance of the estimated $50,000,000 cost of a vegetable oil extraction and refining facility at Windsor, Ontario.	$18,000,000
Calgary flour mill – The modernization of this mill will include new milling equipment and bulk storage and packing facilities.	5,000,000
New bakery plant – Corporate Foods Limited plans to construct a plant in connection with an agreement to supply a major customer under a long-term contract.	3,000,000

12. **Leases**

The company accounts for all leases entered into on or after January 1, 1977 in accordance with U.S. Financial Accounting Standards Board Statement No. 13. Certain transportation and production equipment which are leased under agreements classified as capital leases are accounted for as fixed assets and obligations and the cost is amortized on a straight-line basis over the useful lives of the assets. Information with respect to such leases entered into in 1977 is as follows:

	December 31, 1977
	(000's omitted)
Machinery and equipment, at cost	$2,560
Less accumulated amortization	245
	$2,315

Future minimum lease payments under the above capital leases together with the related present value as at December 31, 1977 are as follows:

	(000's omitted)
1978	$ 683
1979	574
1980	395
1981	327
1982	191
Thereafter	777
Total minimum lease payments	2,947
Less amount representing interest	677
Present value of minimum lease payments	2,270
Less amounts due in one year and included in accounts payable and accrued liabilities	509
	$1,761

The company also leases property and equipment under leases which are classified as operating leases. Rental expense under operating leases, as well as capital leases entered into prior to 1977, was $2,587,000 and $2,609,000 for the years 1976 and 1977 respectively.

Annual future minimum rentals under capital leases entered into prior to 1977 and operating leases are as follows:

	(000's omitted)
1978	$2,814
1979	1,619
1980	1,202
1981	956
1982	756
Thereafter	3,530

If the financial statements had been restated for capital leases in existence prior to January 1, 1977, the effect would not have been material.

13. Anti-Inflation Act

Under this Act the company is subject to mandatory compliance with controls on prices, profit margins, employee compensation and dividends. This program expires in stages by December 31, 1978. Management believes it is in compliance in all material respects with the Act and its Regulations.

These Regulations restrict dividends to the company's shareholders during the year ending October 13, 1978 to a maximum of $.7632 per share.

14. Other statutory information

Remuneration of directors and senior officers totalled $1,014,000 for the year ($954,000 in 1976).

15. Quarterly sales and net earnings (unaudited)

	Sales		Net Earnings		Net Earnings Per Common Share	
	1977	1976	1977	1976	1977	1976
	(in millions)					
First quarter	$124	$118	$ 3.3	$ 2.6	$ .68	$ .55
Second quarter	167	143	3.3	2.8	.67	.57
Third quarter	131	128	2.6	2.8	.54	.58
Fourth quarter	153	142	5.0	2.9	1.02	.59
	$575	$531	$14.2	$11.1	$2.91	$2.29

Sales are generally higher in the second and fourth quarters reflecting the agricultural orientation of certain of the company's operations.

Fourth quarter net earnings in 1977 include the company's share ($1,600,000 after taxes) of the earnings of an overseas company in which it participates under a management contract. Because of a change in fiscal year end of the overseas company, the above amount covered a 16 month period. In 1976, the corresponding amount ($585,000 after taxes) was reflected in net earnings in the third quarter.

16. Business segments

The company's operations are conducted through four business segments. These segments, and the primary operations of each, are as follows:

Agricultural products:	Production and marketing of animal and poultry feeds; operating farm supply centres; processing and marketing of poultry products; processing and marketing of cereal, forage and lawn seed.
Grain:	Trading and merchandising grains; acting as one of the sales agents for the Canadian and Ontario government wheat marketing boards; operating grain elevators and farm supply centres.
Flour and vegetable oil:	Milling and processing of wheat and oilseeds; selling a variety of wheat flours, vegetable oils and meals; providing management assistance to flour milling companies in Caribbean countries.
Consumer food products:	Production and marketing of a variety of consumer grocery products, bakery goods, and pet foods under several brand names.

The following table sets forth the revenues and earnings of each of the company's business segments:

	1977	1976
	(000's omitted)	
Sales and revenues:		
Agricultural products	$135,772	$133,026
Grain	139,346	135,681
Flour and vegetable oil	250,925	212,827
Consumer food products	105,353	101,942
Other	1,591	466
	632,987	583,942
Inter-segment sales	54,069	50,280
	$578,918	$533,662

	1977	1976
Earnings:		
Agricultural products	$ 4,062	$ 5,845
Grain	4,224	3,067
Flour and vegetable oil	18,135	11,900
Consumer food products	5,096	5,595
Other	1,591	466
	33,108	26,873
Interest, minority interests, and general corporate expenses	9,036	8,005
Earnings before income taxes and equity in net earnings of joint ventures	$ 24,072	$ 18,868

17. Parent company

(a) Under a loan agreement between Norin Corp. ("Norin"), the controlling shareholder of the company, and certain banks, limitations are imposed on capital expenditures and borrowings by Norin and its subsidiaries (including the company) and the maintenance of certain consolidated financial ratios is required. While the company is not a party to the loan agreement, these limitations and financial tests were established having regard to the company's future financial plans and requirements. Management does not anticipate that the existence of the loan agreement will affect the company's operations.

(b) In November 1977, Norin, through its wholly owned subsidiary Norin Canada Holdings Inc., ("Norin Canada"), made a tender offer for the remaining publicly held common shares of the company. Pursuant to this offer, which expired in January 1978, 1,088,743 shares were purchased for $18 per share. As a result, Norin now owns 95% of the company's common shares. It is Norin's intention, upon receipt of favourable tax rulings in the United States and Canada (which have been applied for), to effect a series of transactions whereby a successor corporation of Maple Leaf Mills Limited would become a wholly owned subsidiary of Norin. Norin Canada borrowed approximately $20,000,000 in connection with the tender offer and it is expected that approximately $4,000,000 will be borrowed in connection with the proposed transactions. It is contemplated that the successor corporation would assume all of the assets (other than shares of the company) and liabilities of the predecessor corporations. No assurance can be given that such transactions will take place.