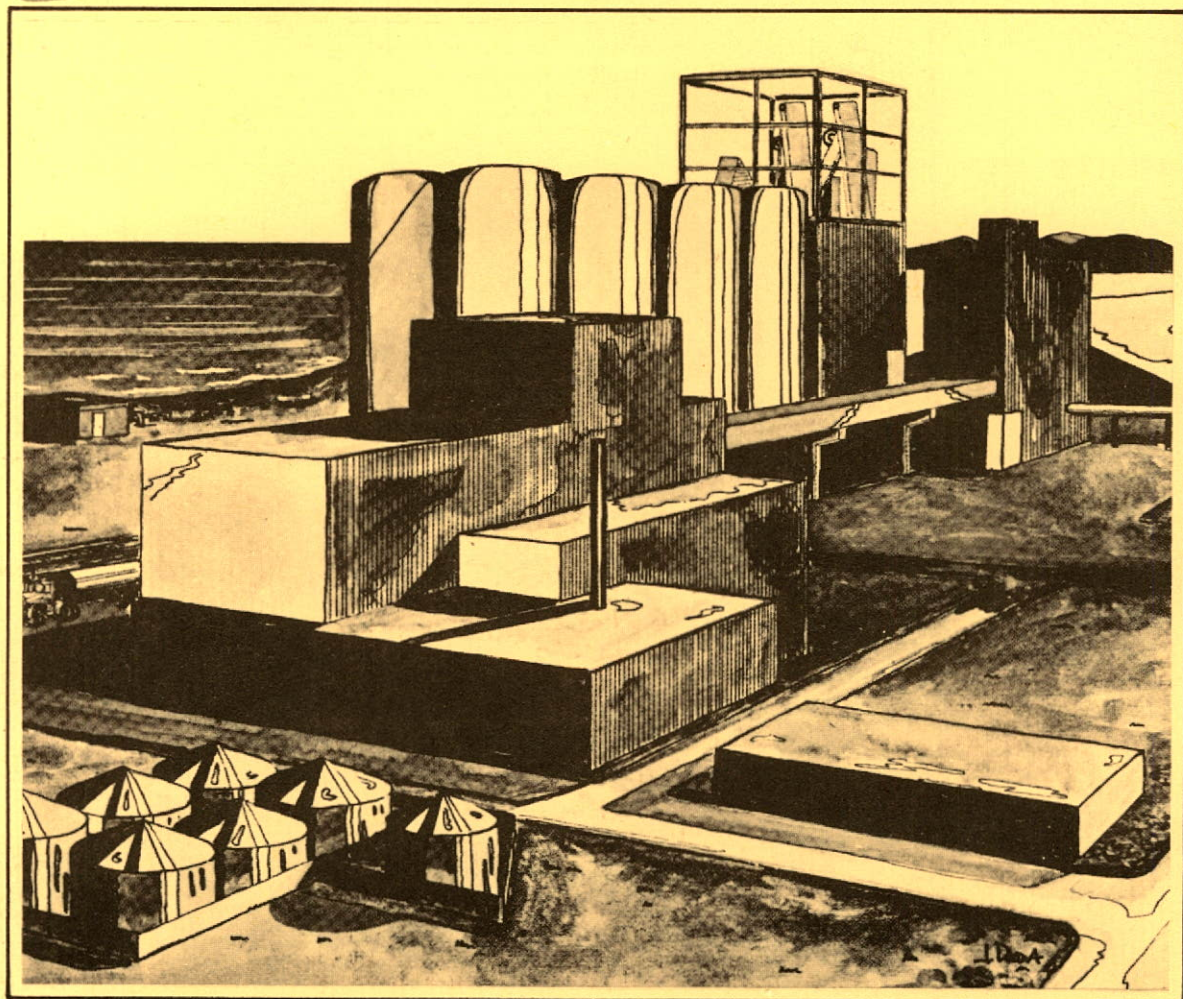
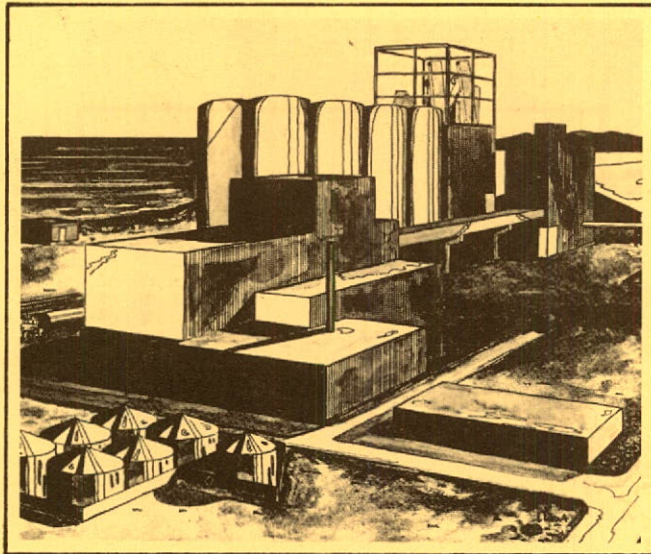


# Maple Leaf Mills Limited Annual Report 1978



HOWARD ROSS LIBRARY  
OF MANAGEMENT  
AUG 16 1979  
MCGILL UNIVERSITY





Cover illustration

The new Windsor vegetable oil processing plant to be operated by Maple Leaf Monarch Company, a partnership between Maple Leaf Mills Limited and Lever Brothers Limited, will be the largest and most modern of its kind in Canada.

# Maple Leaf Mills Limited Annual Report

for the year ended December 31, 1978

## 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

Executive Vice-President, Operations  
J. A. Telfer

### Senior Vice-Presidents

H. W. Blakely, Planning & Corporate Services  
J. D. Bodrug, Domestic Operations  
W. E. Paterson, International Operations  
P. W. Strickland, Corporate Development  
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  
R. J. Mogg, Assistant Corporate Controller  
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

# Chairman's Report

The fiscal year 1978 was a record one for the Company, as sales and operating revenues increased 8.4% to \$623,464,000 and net earnings from operations advanced to \$15,196,000, a gain of 6.5% over the previous year.

The final settlement of the Company's claim against the Government of Canada for additional compensation, with respect to the expropriation of the Queen's Quay property, resulted in an extraordinary gain of \$8,730,000, which increased net earnings for the year to \$23,926,000.

Improvement in the operating results of the Agricultural, Vegetable Oil and Grocery Products Divisions more than offset lower earnings in the Flour and Grain Divisions. Our Associated Bakery companies did well in the highly competitive market in which they operate, and the Company's International Division continued to make excellent progress.

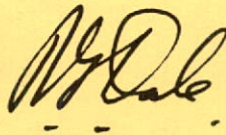
From 1976 to 1978, the Company has been subject to the restrictions of the Anti-Inflation Act, with respect to prices, profit margins, dividends and employee compensation. Despite these restrictions the Company's commitment to growth and its confidence in the future have been reflected in the high level of investment that has been maintained during that time. For the three-year period from 1976 to 1978, cash flow from operations totalled \$56,242,000, while investments in property, equipment and joint ventures in Canada were \$46,715,000 and dividends paid to shareholders amounted to \$11,347,000.

At the resumed general meeting of shareholders, held on January 25th, 1979, the shareholders confirmed the special resolution as varied approving the amalgamation of Maple Leaf Mills Limited, Port Colborne and St. Lawrence Navigation Company, Limited and Norin Canada Holdings Inc. and their continuance under the name of Maple Leaf Mills Limited. The common shares held by minority shareholders were converted into 8% non-cumulative redeemable preferred shares, which were redeemed on March 7th, 1979. As a result of this amalgamation, Maple Leaf Mills became a wholly-owned subsidiary of Norin Corp. of Miami, Florida.

While Maple Leaf shares are no longer traded, approval was granted on November 20th, 1978, for the listing of Norin Corp.'s common stock on the Toronto Stock Exchange. Norin's securities are also traded on the American Stock Exchange.

Together with our colleagues in Norin Corp., we are planning the continued growth of our operations in Canada, the United States and overseas and we look forward to the challenges of the future with confidence and great enthusiasm.

The dedication and support of our employees at every level of our operations contributed greatly to the success of the Company during the past year and is very greatly appreciated.



March 13th, 1979

Robert G. Dale  
Chairman, President and  
Chief Executive Officer

# Consolidated Financial Statements

for the year ended December 31, 1978

## 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, 1978 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, 1978 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.

Toronto, Canada,  
February 23, 1979.

*Clarkson, Gordon & Co.*  
Chartered Accountants



# Consolidated Statement of Earnings

for the year ended December 31, 1978

	1978	1977
	(000's omitted)	
Sales and revenues:		
Sales and operating revenues	\$623,464	\$575,172
Interest, investment and other income	2,141	2,377
Equity in net earnings of joint ventures and affiliated companies	1,447	326
Gain on sale of properties	870	1,369
	627,922	579,244
Cost and expenses:		
Cost of sales and operating expenses	556,059	510,972
Selling and administrative expenses	35,302	34,237
Depreciation	5,425	5,064
Interest on bankers' advances and notes	1,004	177
Interest on long-term debt	3,364	3,328
Minority interests	872	900
	602,026	554,678
Earnings before income taxes and extraordinary gain	25,896	24,566
Income taxes (note 8)	10,700	10,300
Earnings before extraordinary gain	15,196	14,266
Extraordinary gain (notes 8 and 10)	8,730	
Net earnings	\$ 23,926	\$ 14,266
Earnings per common share:		
Earnings before extraordinary gain	\$ 3.10	\$ 2.93
Extraordinary gain	1.78	
Net earnings	\$ 4.88	\$ 2.93

# Consolidated Statement of Retained Earnings

for the year ended December 31, 1978

	1978	1977
	(000's omitted)	
Retained earnings at beginning of year (note 12)	\$ 88,143	\$ 77,378
Net earnings	23,926	14,266
	112,069	91,644
Dividends	4,562	3,501
Retained earnings at end of year	\$107,507	\$ 88,143

# Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1978

	1978	1977
	(000's omitted)	
Source of funds:		
Funds generated from operations	\$22,437	\$19,596
Expropriation settlement (note 10)	13,064	
Sale of property and equipment	1,726	1,227
Obligations under capital leases (note 12)	1,526	1,761
Long-term debt issued	650	
Investments realized	552	604
Common shares issued		344
	39,955	23,532
Application of funds:		
Investments made	12,760	7,065
Purchase of property and equipment	12,332	6,025
Dividends declared	4,562	3,501
Long-term debt retired	2,352	1,410
Equipment under capital leases	2,075	2,560
Other		158
	34,081	20,719
Increase in working capital	5,874	2,813
Working capital at beginning of year	74,835	72,022
Working capital at end of year	\$80,709	\$74,835
Analysis of increase in working capital:		
Increase (decrease) in current assets -		
Short-term deposits and investments	\$(1,294)	\$ (837)
Accounts receivable	4,331	10,011
Expropriation settlement	12,145	
Inventories	1,435	6,134
Prepaid expenses	175	(33)
	16,792	15,275
Less increase (decrease) in current liabilities -		
Bank indebtedness and notes payable	5,361	7,770
Accounts and taxes payable	4,073	5,831
Other	1,484	(1,139)
	10,918	12,462
Increase in working capital	\$ 5,874	\$ 2,813

Assets

	1978	1977
	(000's omitted)	
Current:		
Short-term deposits and investments, at cost which approximates market	\$ 5,126	\$ 6,420
Accounts receivable	56,116	51,785
Expropriation settlement (note 10)	12,145	
Inventories (note 2)	63,814	62,379
Prepaid expenses	1,194	1,019
Total current assets	138,395	121,603
Joint ventures and affiliated companies (note 3)	29,417	16,165
Property and equipment (note 4)	57,973	50,177
Other assets	2,356	2,769
	<u>\$228,141</u>	<u>\$190,714</u>



# Balance Sheet

March 31, 1978

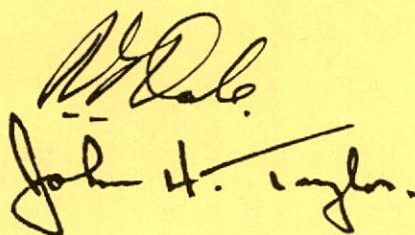
## Liabilities

	1978	1977
	(000's omitted)	
Current:		
Bank indebtedness (note 5)	\$ 11,376	\$ 12,595
Notes payable	8,676	2,096
Accounts payable and accrued liabilities	35,399	27,798
Income and other taxes payable	518	4,046
Dividends payable	1,717	233
Total current liabilities	57,686	46,768
Long-term debt (notes 6 and 17)	32,202	32,425
Accrued pension costs (note 7)	2,290	2,200
Deferred income taxes	15,857	9,126
Minority interests in subsidiaries:		
Preference shares	1,225	1,225
Common shares	4,938	4,391
	6,163	5,616
Shareholders' equity:		
Share capital (note 9)	5,830	5,830
Contributed surplus	606	606
Retained earnings (notes 6 and 17)	107,507	88,143
	113,943	94,579
	\$228,141	\$190,714

On behalf of the Board:

Director

Director



The image shows two handwritten signatures in black ink. The first signature is written over the 'Director' label and appears to be 'R. D. Dale'. The second signature is written over the 'Director' label and appears to be 'John H. Taylor'.

# Notes to Consolidated Financial Statements

December 31, 1978

## 1. Summary of accounting policies

- (a) Basis of presentation and consolidation policy –

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	- 68%

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.

- (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 recognized when title to products passes to the customer and when services are performed. Foreign management fee revenues 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	6 $\frac{2}{3}$ % – 30% per annum
Automotive equipment	20% – 30% per annum

Upon sale or retirement of property or equipment the cost and accumulated depreciation applicable thereto are removed from the accounts and the resulting gain or loss is reflected in operations.

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

- (f) Capital leases –

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

## 2. Inventories

Inventories at December 31 consist of the following:

	1978	1977
	(000's omitted)	
Grains held for resale	\$12,694	\$15,046
Material held for production	32,305	26,475
Finished products	18,815	20,858
	<u>\$63,814</u>	<u>\$62,379</u>

## 3. Joint ventures and affiliated companies

Investments in joint ventures and affiliated companies are recorded on the equity method.

The company's interests in its principal investments are set out below:

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

Corporate Foods Limited, a 63% owned subsidiary, has investments and interests therein as set out below:

Durivage Inc.	25%
La Boulangerier Doyon Inc.	25
La Huche Sans Pareille (1969) Inc.	25
Purity Bakeries Limited	50
Robin Le Pain Moderne Inc.	25

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

	1978		1977	
	Total	Company's share	Total	Company's share
	(000's omitted)			
Assets	\$109,357	\$46,180	\$ 69,510	\$28,267
Equity	68,443	29,417	38,620	16,165
Revenues	158,965	61,519	133,404	48,475
Net earnings	3,358	1,447	1,205	326

#### 4. Property and equipment

	1978		1977	
	Cost	Accumulated depreciation	Net	Net
	(000's omitted)			
Land and improvements	\$ 3,965	\$ 246	\$ 3,719	\$ 3,405
Buildings	40,710	17,383	23,327	22,139
Equipment	74,888	43,961	30,927	24,633
	\$119,563	\$61,590	\$57,973	\$50,177

#### 5. Bank indebtedness

Accounts receivable and inventories have been pledged as security for bank indebtedness.

#### 6. Long-term debt

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

	1978	1977
	(000's omitted)	
Maple Leaf Mills Limited - 5 $\frac{1}{4}$ % Sinking Fund Debentures to mature December 1, 1981	\$ 5,924	\$ 6,412
11 $\frac{1}{8}$ % Sinking Fund Debentures to mature August 1, 1995	19,150	20,000
Corporate Foods Limited - 8 $\frac{1}{2}$ % Sinking Fund Debentures, Series A, due December 15, 1988	3,361	3,534
Obligations under capital leases - Interest rates range from 6% to 13% with an average rate of approximately 9%. Expiry dates range from January, 1980 to October, 1989.	3,096	2,302
Other	671	177
	\$32,202	\$32,425

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

	(000's omitted)
1979	-\$2,312
1980	- 2,443
1981	- 7,267
1982	- 1,549
1983	- 1,452

(See note 17 regarding additional long-term debt assumed on February 1, 1979.)

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 \$40,000,000 as at December 31, 1978.

#### 7. Pension costs

Pension expense totalled \$1,800,000 for the year (\$1,900,000 in 1977). Based on an independent actuarial valuation of the company's plans, as at January 1, 1978, unfunded past service obligations at December 31 consisted of the following amounts.

	1978	1977
	(000's omitted)	
Accrued in current liabilities	\$ 280	\$ 300
Accrued in non-current liabilities	2,290	2,200
To be expensed	1,930	2,300
	\$4,500	\$4,800

#### 8. Income taxes

Income taxes charged to earnings in 1978 include deferred taxes of \$5,453,000 (\$550,000 in 1977) of which \$2,312,000 is applicable to the extraordinary gain.

#### 9. Share capital

	December 31	
	1978	1977
	(000's omitted)	
Preference shares Class A, par value \$100 each: Authorized - 75,000 shares Issued - Nil		
Common shares without par value: Authorized - 12,000,000 shares Issued - 4,905,012 shares (1978 and 1977) of which 16,170 are held by a subsidiary	\$5,830	\$5,830

## 10. Expropriation and relocation

In 1973, the Government of Canada expropriated the company's Queen's Quay, Toronto property, and the company received, without prejudice to its rights to claim additional compensation, \$12.2 million and a provisional allowance for disturbance costs of \$2.8 million.

On February 1, 1979, the company agreed to terms of a final settlement of its claim against the Government of Canada for additional compensation arising out of the expropriation. Additional compensation amounting to \$12,145,000 was received in February, 1979. The resulting gain of \$8,730,000, after providing for income taxes (\$2,312,000), additional start-up and disturbance costs associated with the relocation of facilities (\$859,000) and the writing off of fixed assets (\$244,000), has been accounted for as an extraordinary gain in the accompanying financial statements. The balance of the provision for disturbance costs and start-up and relocation costs (\$2,335,000) is included in accounts payable and accrued liabilities.

The Government also agreed to extend a licence of occupation, under which the company has the right to occupy part of the expropriated premises, until December 31, 1979, subject to earlier termination by the company. The company has also reached agreement in principle on the terms under which it would continue to operate the Queen's Quay transfer elevator under a five-year lease.

In 1976, the company entered into an agreement providing for an equal partnership with Lever Brothers Limited, under the name Maple Leaf Monarch Company, to establish a vegetable oil extraction and refining operation at Windsor, Ontario. These facilities are expected to be completed in 1979 and will replace the Queen's Quay vegetable oil facilities.

## 11. Capital expenditure plans

The estimated costs to complete principal projects in progress at the year end total \$15,000,000, including \$9,000,000 which is the balance of the company's share of the cost of establishing a vegetable oil extraction and refining facility at Windsor, Ontario.

## 12. Leases

The 1977 comparative financial statements have been restated to reflect the retroactive application of accounting for certain leases as capital leases which previously had been accounted for as operating leases. Such restatement had the effect of increasing previously reported 1977 net earnings by \$68,000 (\$0.02 per common share), and retained earnings as at January 1, 1977 by \$202,000. The costs of equipment, classified as capital leases, are amortized on a straight-line basis over their useful lives.

The assets recorded at December 31 under capital leases are as follows:

	1978	1977
	(000's omitted)	
Machinery and equipment, at cost	\$7,830	\$6,153
Less accumulated amortization	2,862	2,098
	<u>\$4,968</u>	<u>\$4,055</u>

Future minimum lease payments under the above capital leases together with the related present value as at December 31, 1978 are as follows:

	(000's omitted)
1979	\$1,348
1980	955
1981	710
1982	481
1983	353
Thereafter	1,465
Total minimum lease payments	5,312
Less amount representing interest	1,080
Present value of minimum lease payments	4,232
Less amounts due in one year and included in accounts payable and accrued liabilities	1,136
	<u>\$3,096</u>

The company also leases property and equipment under leases which are classified as operating leases. Rental expense under such

leases was \$2,480,000 and \$1,570,000 for the years 1978 and 1977 respectively. Annual future minimum rentals under operating leases are as follows:

	(000's omitted)
1979	- \$2,022
1980	- 1,496
1981	- 1,196
1982	- 1,080
1983	- 946
Thereafter	- 6,694

### 13. Anti-Inflation Act

Under this program, which expired in 1978, the company was subject to mandatory compliance with controls on prices, profit margins, employee compensation and dividends. Management believes the company complied with the Act and its Regulations.

### 14. Other statutory information

Remuneration of directors and senior officers totalled \$1,024,500 for the year (\$1,014,000 in 1977).

### 15. Quarterly sales and net earnings (unaudited)

	Sales		Net earnings		Net earnings per common share	
	1978	1977	1978	1977	1978	1977
	(in millions)					
First quarter	\$136	\$124	\$ 2.9	\$ 3.3	\$ .58	\$ .69
Second quarter	171	167	4.0	3.3	.82	.67
Third quarter	141	131	2.9	2.6	.60	.55
Fourth quarter	175	153	5.4	5.0	1.10	1.02
	623	575	15.2	14.2	3.10	2.93
Extraordinary gain (fourth quarter)			8.7	1.78		
	<u>\$623</u>	<u>\$575</u>	<u>\$23.9</u>	<u>\$14.2</u>	<u>\$4.88</u>	<u>\$2.93</u>

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 1978 and 1977 include the company's share (\$1,370,000 and \$1,600,000 respectively after taxes) of the earnings of an overseas company in which it participates under a management contract.

### 16. Business segments

The company's operations are conducted through four business 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:

	1978	1977
	(000's omitted)	
Sales and revenues:		
Agriculture products	\$147,169	\$135,772
Grain	180,016	139,346
Flour and vegetable oil	245,000	250,925
Consumer food products	112,083	105,353
Other	954	1,591
	685,222	632,987
Intersegment sales	58,747	54,069
	<u>\$626,475</u>	<u>\$578,918</u>

16. Business segments (cont.)

	1978	1977
	(000's omitted)	
Operating earnings:		
Agricultural products	\$ 6,492	\$ 4,224
Grain	3,029	4,253
Flour and vegetable oil	17,500	18,182
Consumer food products	5,914	5,293
Other	954	1,591
	<u>33,889</u>	<u>33,543</u>
Interest, minority interests, and general corporate expenses	9,440	9,303
Earnings before income taxes, equity in net earnings of joint ventures and affiliated companies and extraordinary gain	<u>\$ 24,449</u>	<u>\$ 24,240</u>

17. (a) Amalgamation

In November, 1977, Norin Corp. ("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. As a result, at December 31, 1978 Norin owned 95% of the company's common shares.

On January 25, 1979, the shareholders approved the amalgamation, which became effective on February 1, 1979, of the company with Norin Canada and with a wholly-owned subsidiary, Port Colborne & St. Lawrence Navigation Company, Limited. The amalgamated corporation (called Maple Leaf Mills Limited) became a wholly-owned subsidiary

of Norin and former holders of the 5% minority interest in the company's common shares became holders of preference shares of the amalgamated corporation. The amalgamated corporation assumed term borrowings of approximately \$23,000,000 maturing in instalments to January 31, 1986, incurred by Norin Canada in connection with the tender offer. The company expects to incur further term borrowings of approximately \$3,500,000 in connection with the redemption of \$5,000,000 of preference share capital on March 7, 1979.

(b) 1979 Accounting for Amalgamation

The accounting for the amalgamation will recognize the continuity of interests which exists and will therefore be treated as if it were a pooling of interests. The accounting will give effect to the purchase and cancellation of shares of the company having a paid-up capital of \$5,830,000 and the difference between Norin Canada's cost of the shares and their paid-up capital will be allocated to reduce contributed surplus and retained earnings by \$606,000 and \$18,094,000 respectively.

The issued share capital subsequent to the amalgamation and the redemption of the preference shares will be as follows:

Common shares without par value - 3,576,228 shares	<u>\$75,000</u>
--	-----------------

In preparing its 1979 financial statements and the comparative figures for 1978, the company will include Norin Canada's interest expense and borrowings with that of the company. Accordingly, 1978 reported net earnings will be reduced by \$1,340,000.



