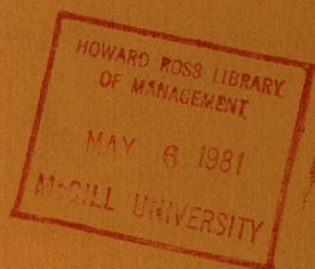


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Maple Leaf Mills Limited

Annual Report 1980



Maple Leaf Mills Limited Annual Report

for the year ended December 31, 1980

Directors

R. W. Campbell	D. Corner	R. G. Dale	R. S. DeMone
J. W. Kerr	F. H. Logan	J. H. Panabaker	W. J. Stenason
J. A. Telfer			

Officers

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

D. Corner
Executive Vice-President

J. A. Telfer
Executive Vice-President

Senior Vice-Presidents

H. W. Blakely, *Corporate Development*
J. D. Bodrug, *Planning & Corporate Services*

W. E. Paterson, *International Operations*
J. J. Wigle, *Finance*

Vice-Presidents

G. B. Ballantyne, *Rendering Operations*
F. T. Cowan, *Farm Supply*
A. H. James, *Flour*
H. G. Jones, *Poultry*

J. W. MacDonald, *Grocery Products*
S. A. Miller, *Labour Relations*
C. L. Turner, *Grain*

Financial

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

President and Chief Executive Officers

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

Head Office

2300 Yonge Street
Toronto, Ontario M4P 1E4

Chairman's Report

During the fiscal year 1980, sales and operating revenues increased 15.5% to \$830,319,000, while net earnings were \$10,157,000 compared with \$12,810,000 reported in 1979.

Earnings for the year were adversely affected by the failure of the new vegetable oil mill and refinery of the Maple Leaf Monarch Company, a joint venture between Maple Leaf Mills Limited and Lever Brothers Limited, to perform as had been planned. While the oil milling segment was operating satisfactorily by the second quarter of the year, the refinery operated below capacity for the twelve months and is not expected to reach the required level of efficiency until the second quarter of 1981.

Accrued costs relating to the closure of the St. Boniface flour mill on February 13, 1981, and one time costs relating to the closure of several branches and the general re-organization of the Farm Supply Division also contributed to lower earnings.

Agricultural earnings in general were affected by lower volume and margins in the Farm Supply and Poultry Divisions, but the Grain Division achieved good results in most areas. The Grocery Products Division showed improved results which were aided by their first full year of operation in their new automated plant in Toronto.

The results of the International Division were considerably below the previous year, due to reduced earnings from flour and feed operations in the Caribbean, where local Governments would not authorize requested price increases at levels sufficient to cover the significantly higher ingredient and production costs encountered during the year. Progress with respect to the resolution of this problem is being made and a return to a higher level of earnings is expected in 1981.

Our Associated Bakery operations had a satisfactory year but earnings were somewhat lower as price increases were not sufficient in most areas to cover higher ingredient and labour costs. The decision of the Canadian Government to increase the ceiling on domestic wheat from \$5.00 to \$7.00 per bushel to reflect world grain prices was a major contributing factor to higher bread prices during the year.

The Flour Division reported another excellent year with more than 22 million bushels of wheat

milled in 1980 for domestic and export markets at its seven mills in Eastern and Western Canada. Export sales continued to decline during the year, and as a result the decision was made to close the St. Boniface, Manitoba mill, which was primarily operated for export business. This decision was taken only after careful study and with great regret, as the mill had been an integral part of the Division's operations since its purchase in 1951.

On July 10, 1980, Maple Leaf Mills Limited became a wholly owned subsidiary of Canadian Pacific Enterprises Limited upon the latter company's acquisition of Norin Corp.

Early in January 1981, Maple Leaf Mills Limited purchased the grain elevator at Port McNicoll and the management contract with respect to the West Saint John elevator of the National Harbours Board from Marathon Realty Company Limited, and Rothsay Concentrates Co. Limited, a major Canadian rendering company owned by Canadian Pacific Enterprises was merged with Maple Leaf and will operate as one of our Divisions. The Company also acquired all of the shares of Midland Simcoe Elevator Company, Limited from Canadian Pacific Enterprises on February 20, 1981.

As part of the transactions relating to the purchase of Norin Corp. by Canadian Pacific Enterprises, Maple Leaf assumed the \$25,896,000 U.S. 11% Subordinated Sinking Fund Debentures of Norin Corp. and these securities are now listed on the American Stock Exchange in the name of Maple Leaf Mills Limited. In January 1981, Maple Leaf also negotiated with a major Canadian bank more favourable terms for the \$22,500,000 term loan which the Company had assumed following Norin Corp.'s acquisition of all the common shares of the Company in February 1979. The servicing of this substantial debt load will continue to have a significant effect on the earnings of the Company over the next few years.

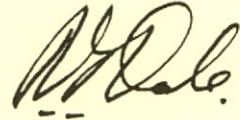
The acquisition of Maple Leaf by Canadian Pacific Enterprises Limited and the fact that the Company is once again a Canadian owned corporation is viewed with great enthusiasm by employees at every level of our operations and we look forward to a bright future as a member of the Canadian Pacific family of companies.

While our Company continues to contend with intense competition in every area of our opera-

Chairman's Report (cont.)

tions and is particularly affected by high interest rates due to the commodity nature of our businesses, we feel confident that a substantial improvement in earnings will be realized in the year ahead.

The co-operation and support of our employees in every area of our operations contribute greatly to the strength and stability of the Company and is greatly appreciated.



Robert G. Dale
*Chairman, President and
Chief Executive Officer*

February 20, 1981



Consolidated Financial Statements

for the year ended December 31, 1980

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, 1980 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. For certain companies consolidated or accounted for by the equity method, we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 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.

The financial statements for the year ended December 31, 1979 were reported on by Clarkson Gordon.

Toronto, Canada,
February 18, 1981.

Price Waterhouse + Co.

Chartered Accountants

Consolidated Statement of Earnings

for the year ended December 31, 1980

	1980	1979
	(000's omitted)	
Sales and revenues:		
Sales and operating revenues	\$830,319	\$718,765
Interest, investment and other income	3,139	2,737
Equity in net earnings of joint ventures	1,151	2,140
Gain on sale of properties and investment in joint venture	-	1,139
	834,609	724,781
Costs and expenses:		
Cost of sales and operating expenses	752,445	646,782
Selling and administrative expenses	45,088	41,060
Depreciation	7,500	5,761
Interest on long-term debt	6,542	6,569
Interest on short-term debt	4,952	3,445
Minority interests	935	1,154
Loss on plant closures and sale of properties	390	-
	817,852	704,771
Earnings before income taxes	16,757	20,010
Income taxes (note 8)	6,600	7,200
Net earnings	\$ 10,157	\$ 12,810

Consolidated Statement of Retained Earnings

for the year ended December 31, 1980

	1980	1979
	(000's omitted)	
Retained earnings at beginning of year	\$ 93,773	\$ 87,490
Net earnings	10,157	12,810
	103,930	100,300
Dividends	9,835	6,527
Arbitration settlement with former shareholders	171	-
Retained earnings at end of year	\$ 93,924	\$ 93,773

Consolidated Balance Sheet

December 31, 1980

Assets

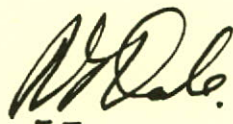
	1980	1979
	(000's omitted)	
Current:		
Short-term deposits and investments, at cost which approximates market	\$ 6,512	\$ 3,735
Accounts receivable	69,806	59,068
Inventories (note 2)	83,826	76,021
Prepaid expenses	1,256	921
Total current assets	161,400	139,745
Investments in joint ventures (note 3)	14,500	12,969
Property and equipment (note 4)	92,955	90,001
Other assets	3,426	2,468
	\$272,281	\$245,183

Liabilities


	1980	1979
	(000's omitted)	
Current:		
Bank indebtedness	\$ 34,493	\$ 15,167
Notes payable	-	16,419
Due to affiliated company (note 5)	10,000	-
Accounts payable and accrued liabilities	46,516	33,670
Income and other taxes payable	3,409	2,966
Long-term debt maturing within one year	6,594	1,378
Total current liabilities	101,012	69,600
Long-term debt (note 6)	46,644	54,770
Accrued pension costs (note 7)	2,573	2,393
Deferred income taxes	20,790	17,718
Minority interests in subsidiaries:		
Preference shares	1,225	1,225
Common shares	6,038	5,629
	7,263	6,854
Shareholder's equity:		
Share capital (note 9)	75	75
Retained earnings	93,924	93,773
	93,999	93,848
	\$272,281	\$245,183

On behalf of the Board:

Director



Director



Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1980

	1980	1979
	(000's omitted)	
Source of funds:		
Funds from operations	\$ 20,867	\$ 18,354
Sale of property and equipment	1,865	1,269
Long-term debt issued	1,200	4,809
Investments realized	151	2,655
Other	33	178
	24,116	27,265
Application of funds:		
Purchase of property and equipment	12,168	21,066
Dividends	9,835	6,527
Reduction in long-term debt	9,251	4,788
Investments made	1,333	1,280
Purchase of goodwill	1,286	-
Redemption of preference shares	-	5,002
	33,873	38,663
Decrease in working capital	9,757	11,398
Working capital at beginning of year	70,145	81,543
Working capital at end of year	\$ 60,388	\$ 70,145
Analysis of decrease in working capital:		
Increase (decrease) in current assets -		
Short-term deposits and investments	\$ 2,777	\$ (1,391)
Accounts receivable	10,738	1,905
Inventories	7,805	12,207
Prepaid expenses	335	(273)
Expropriation settlement	-	(12,145)
	21,655	303
Less increase (decrease) in current liabilities -		
Bank indebtedness and notes payable	12,907	11,545
Accounts and taxes payable	18,505	1,873
Other	-	(1,717)
	31,412	11,701
Decrease in working capital	\$ 9,757	\$ 11,398

Notes to Consolidated Financial Statements

December 31, 1980

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 (see note 3). Investments in other joint ventures 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	68%

(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	20% – 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 cost reduction method.

2. Inventories

	1980	1979
	(000's omitted)	
Grains held for resale	\$21,247	\$18,148
Material held for production	30,187	31,381
Finished products	32,392	26,492
	\$83,826	\$76,021

3. Investments in joint ventures

(a) Maple Leaf Monarch Company –

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

	Company's proportionate share	
	1980	1979
	(000's omitted)	
Current assets	\$20,424	\$10,818
Fixed assets	25,897	26,518
Equity	29,690	28,986
Revenues	75,419	34,977
Earnings before income taxes	733	398

(b) Other joint ventures –

Summary financial information relating to other joint ventures as a group is as follows:

	1980		1979	
	Total	Company's share	Total	Company's share
	(000's omitted)			
Assets	\$ 86,937	\$32,939	\$ 71,382	\$26,178
Equity	37,899	14,500	36,146	12,969
Revenues	244,907	98,006	178,466	67,335
Net Earnings	3,937	1,151	6,203	2,140

Notes to Consolidated Financial Statements (cont.)

4. Property and equipment

	1980		1979	
	Cost	Accumulated depreciation	Net	Net
	(000's omitted)			
Land and improvements	\$ 4,854	\$ 298	\$ 4,556	\$ 4,760
Buildings	58,109	19,836	38,273	38,172
Equipment	99,526	49,400	50,126	47,069
	\$162,489	\$69,534	\$92,955	\$90,001

5. Due to affiliated company

Effective October 1, 1980 the company entered into 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.

6. Long-term debt

	1980	1979
	(000's omitted)	
Maple Leaf Mills Limited - 5 ³ / ₄ % Sinking Fund Debentures to mature December 1, 1981	\$ 5,385	\$ 5,472
11 ⁵ / ₈ % Sinking Fund Debentures to mature August 1, 1995	17,333	18,540
Bank term debt to mature January 31, 1990 (interest not to exceed prime rate)	22,500	24,500
Corporate Foods Limited - 8 ¹ / ₂ % Sinking Fund Debentures, Series A due December 15, 1988	3,159	3,351
Obligations under capital leases maturing 1982 to 1989, interest rates average approximately 9% (see note 11)	2,848	3,613
Other	2,013	672
	53,238	56,148
Less long-term debt maturing within one year	6,594	1,378
	\$46,644	\$54,770

Estimated annual repayment requirements in the next five years are:

	(000's omitted)	
1981	-	\$6,813
1982	-	2,146
1983	-	1,890
1984	-	3,818
1985	-	3,749

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 \$20,000,000 as at December 31, 1980.

7. Pension costs

Pension expense totalled \$2,500,000 for the year (\$2,300,000 in 1979). During the year certain pension benefits were improved thereby giving rise to additional unfunded past service obligations of approximately \$550,000. Based on the most recent independent actuarial valuation of the pension plans, unfunded past service obligations at December 31 consisted of the following amounts:

	1980	1979
	(000's omitted)	
Accrued in current liabilities	\$ 400	\$ 300
Accrued in non-current liabilities	2,573	2,393
To be amortized	2,600	2,500
	5,573	\$5,193

8. Income taxes

Income taxes charged to earnings in 1980 include deferred taxes of \$4,883,000 (\$1,861,000 in 1979).

9. Share capital

	1980	1979
	(000's omitted)	
8% non-cumulative, redeemable preference shares, par value \$20 each:		
Authorized - 49,888 shares		
Issued - nil	-	-
Common shares without par value:		
Authorized - 12,000,000 shares		
Issued - 3,576,228 shares	\$75	\$75

10. Capital expenditure plans

The estimated cost to complete principal projects in progress at year end totals \$4,000,000. In December 1980 the company entered into an agreement to purchase all of the assets of the grain elevator division of an affiliated company for \$2,000,000.

11. Leases

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

	1980	1979
	(000's omitted)	
Machinery and equipment	\$7,105	7,604
Less accumulated amortization	3,750	3,331
	\$3,355	\$4,273

Future minimum lease payments under the above capital leases together with the related present value as at December 31, 1980 are as follows:

	(000's omitted)
1981	\$ 789
1982 - 1985	1,767
Thereafter	1,068
Total minimum lease payments	3,624
Less amount representing interest	776
Present value of minimum lease payments	2,848
Less amounts due in one year and included in accounts payable and accrued liabilities	570
	\$2,278

The company also leases property and equipment under agreements which are classified as operating leases. Annual future minimum rentals under operating leases approximate \$2,000,000.

12. Other statutory information

Remuneration of directors and senior officers totalled \$1,340,087 for the year (\$1,289,718 in 1979).

13. Quarterly sales and net earnings

	(unaudited)			
	Sales and operating revenue		Net earnings	
	1980	1979	1980	1979
	(in millions)			
First quarter	\$173	\$149	\$ 2.1	\$ 2.8
Second quarter	205	190	2.7	3.4
Third quarter	206	180	3.0	2.6
Fourth quarter	246	200	2.4	4.0
	\$830	\$719	\$10.2	\$12.8

14. Related party transactions

(a) All of the shares of the company are owned, through a holding company, by Canadian Pacific Enterprises Limited. The more significant transactions during the period with companies within the Canadian Pacific group are described below.

Some of the company's products are transported by rail, including CP Rail. Freight rates charged by CP Rail are at published tariff rates.

The company entered into a loan agreement with Canadian Pacific Securities Limited during the year as described in note 5. The company also participates in a centralized banking system with Canadian Pacific Enterprises Limited.

(b) In the normal course of business, the company sells products and provides management and technical assistance to many of its joint ventures and an overseas company in which it participates under a management contract. During the year transactions with these companies accounted for approximately 9% of consolidated revenues. In addition, the company purchases at market prices a substantial portion of its soybean meal requirements from Maple Leaf Monarch Company.

15. Amalgamation

During July 1980 all of the shares of the company were acquired by Maple Leaf Mills (Ontario) Inc. ("Ontario"), a wholly-owned subsidiary of Canadian Pacific Enterprises Limited ("Enterprises").

On January 6, 1981 the company, Ontario and Rothsay Concentrates Co. Limited

15. **Amalgamation (cont.)**

("Rothsay"), a wholly-owned subsidiary of Enterprises were amalgamated and continued as Maple Leaf Mills Limited ("Amalgamated Maple Leaf").

In order to recognize the continuity of Enterprises' investment in the companies, the amalgamation will be accounted for as a pooling of interests. Had the amalgamation taken place on January 1, 1980, shareholder's equity of Amalgamated Maple Leaf as at December 31, 1980 would have been \$103,902,000 and pro-forma net earnings for the year then ended would have been \$9,625,000. Such pro-forma earnings reflect adjustments for additional depreciation on revalued assets and interest expense relating to the \$29,962,000 of long-term debt assumed in connection with the acquisition of the company by Ontario.

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. Trading and merchandising grains; acting as one of the sales agents for the Canadian and Ontario government wheat marketing boards; operating grain elevators.

Flour and other food products

Milling and marketing a variety of wheat flours; providing management assistance to flour milling companies in Caribbean countries. Production and marketing of a variety of consumer grocery products, bakery goods and pet foods under several brand names.

16. **Business segments**

The company's operations have been grouped into three business segments and the primary operations of each are as follows:

Vegetable oil

Processing of oilseeds and selling of vegetable oils and meals (through Maple Leaf Monarch Company).

Business segment information - 1980

	(000's omitted)				
	Agricultural products	Flour and other food products	Vegetable oil	Eliminations	Consolidated total
Sales and operating revenues	\$379,636	\$375,264	\$ 75,419	\$ -	\$830,319
Intersegment sales	49,089	54,251	10,790	(114,130)	-
Total sales and operating revenues	\$428,725	\$429,515	\$ 86,209	\$(114,130)	\$830,319
Segment operating earnings	\$ 10,211	\$ 21,557	\$ 1,492		\$ 33,260
Equity in earnings of joint ventures					1,151
General corporate expenses					(5,225)
Interest expense					(11,494)
Minority interests					(935)
Income taxes					(6,600)
Net earnings					\$ 10,157
Identifiable assets	\$ 94,824	\$114,754	\$ 46,584		\$256,162
Corporate assets					1,619
Investments in joint ventures					14,500
Total assets					\$272,281
Capital expenditures	\$ 5,117	\$ 5,889	\$ 1,131		
Depreciation	\$ 2,505	\$ 4,151	\$ 993		

Export sales of \$129 million are included in the above sales figures.

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

