AGRA
INDUSTRIES LIMITED

1974
ELEVENTH
ANNUAL REPORT

AGRA INDUSTRIES is a young, diversified Canadian company which employs over 2,000 people working in 48 offices and/or plants located in 21 cities and towns across Canada and in the U.S.A. The company operates in four areas — Foods, Engineering, Beverages and Communications. Through its Communications Group, AGRA is the wholesale distributor of news magazines in Southern Alberta and operates several cable television systems throughout Western Canada. The Beverage Group produces and distributes several nationally branded soft-drink lines in Southern Alberta and also operates a custom canning plant for major soft-drink brands in Western Canada. AGRA's Engineering Group includes consulting offices engaged in design and construction supervision of industrial process plants, highways and foundations. The Group is involved with research and development work in environmental control systems and food processing equipment, and includes the only Canadian-owned company, operating on an international basis, which specializes in construction of deep pile and caisson foundations for heavy structures. AGRA'S Foods Group produces and distributes specialty ingredients for the snack food and baking industries. It also operates a large meat packing plant and is heavily involved in all phases of the edible oil industry, which includes the processing of rapeseed and other edible oilseeds into vegetable oil, shortening and margarine. Products from the meat packing and oilseed processing operations are sold domestically and shipped to various parts of the world.

AGRA
INDUSTRIES LIMITED

HEAD OFFICE: 1101 CN TOWERS, SASKATOON, CANADA

1974
ELEVENTH ANNUAL REPORT

FINANCIAL SUMMARY	1974	1973
Sales	$154,685,149	94.613.005
Earnings Before Taxes	5,270,429	4.252.073
Corporation Income Taxes	2,314,270	1.837.991
Net Earnings ...	2,956,159	2.414.082
Earnings Per Share	1.55	1.37
Average Shares Outstanding	1,896,507	1.764.390
Return on Equity	21%	26%

ANNUAL MEETING

The annual meeting of shareholders will be held at 2:00 p.m. on Wednesday, January 22, 1975 in the Starlight Room of the Sheraton Cavalier Hotel in Saskatoon, Saskatchewan. If you cannot be present, please vote by proxy.

BOARD OF DIRECTORS

D. H. C. BEACH	Special Consultant
S. J. HAMER	Senior Vice-President
P. KOZICKI	Vice-President, Engineering Group
R. E. LLOYD	Saskatchewan Economic Development Corporation
W. B. MANOLSON	Chairman of the Board, Cybermedix Ltd.
T. A. McLELLAN	Executive Vice-President and Secretary
V. MILLER	Vice-President, Foods Group
C. ROLES	President, Smith-Roles Ltd.
R. A. SCHWIEDER	Vice-President, Engineering Group
B. B. TORCHINSKY	President and Chairman of the Board

OFFICERS AND CORPORATE MANAGEMENT

B. B. TORCHINSKY	President and Chairman of the Board
T. A. McLELLAN	Executive Vice-President and Secretary
A. W. BEAN	Executive Assistant and Treasurer
V. MILLER	Vice-President, Foods Group
R. A. SCHWIEDER	Vice-President, Engineering Group (Consulting)
P. KOZICKI	Vice-President, Engineering Group (Contracting)
D. S. MILAVSKY	Vice-President, Engineering Group (Marine)
A. R. MacGREGOR	Vice-President, Communications Group
K. J. TAYLOR	Vice-President, Beverage Group
R. G. DITTMER	Assistant Secretary-Treasurer
R. D. SHANNON	Corporate Solicitor

COMPANY AUDITORS

Winspear Higgins Stevenson and Co.,
Saskatoon, Saskatchewan.

REGISTRAR AND TRANSFER AGENT

Canada Permanent Trust Company,
Vancouver, Calgary, Saskatoon,
Winnipeg, Toronto, Montreal, Halifax

SECURITIES EXCHANGE LISTING

Toronto Stock Exchange
Montreal Stock Exchange

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Report to the Shareholders

A major milestone was reached in AGRA's latest fiscal year which ended July 31, 1974. For the first year in our history, total sales exceeded $100 million by a substantial amount. I believe that this milestone, reached after eleven successful years in business, testifies very favorably as to our ability and maturity.

In spite of a year plagued with severe problems common to most other industries, such as runaway inflation, economic jitters and labor unrest, we have managed once again to break previous performance records. For fiscal 1974, sales increased to $154,685,149 compared with $94,613,005 last year. Net earnings for the year, after depreciation and full taxes, rose to $2,956,159 or $1.55 per share (based on an average 1,896,507 shares outstanding) compared with $2,414,082 or $1.37 per share (based on 1,764,390 shares) for an increase of 22 percent over last year. Of the total earnings, $377,047 (or 20 cents per share) should be classed as extraordinary, since they resulted from the sale of some of our surplus properties. This illustrates that the value of most of our fixed assets has increased substantially over book value.

For the first year since AGRA was listed on the Toronto Stock Exchange in 1968, we have not been actively engaged in the acquisition of new companies. In fact, the only major acquisition was the purchase of Valley Televue Ltd., our cable television system in Chilliwack, British Columbia. The purchase agreement for Valley Televue was actually made in 1973, but due to the time required to get necessary government approval, finalization of the purchase was delayed until fiscal 1974. Since our external expansion activities slowed down substantially, we directed our efforts instead to internal growth and development as well as consolidation of our organization. All of this contributed to a strengthening and stabilizing of the company.

The substantial increase in revenues occurred primarily in our Foods Group. This was due partly to the inflationary increase in the value of food products processed and partly to the larger volume throughput in our operations. The resulting increased dollar volume of business required a major increase in working capital which was obtained by selling 300,000 common treasury shares to The Saskatchewan Economic Development Corporation (SEDCO) for $10 each to provide $3,000,000 in equity funds. Additional arrangements to increase working capital, and at the same time reduce long-term debt, were made subsequent to our year-end. In a special agreement with the Saskatchewan Wheat Pool, we arranged to sell to the Pool our rapeseed processing facilities in Nipawin for a total selling price of $11,200,000. The Saskatchewan Wheat Pool will operate the crushing plant itself. The packaging and blending plant will be leased and operated by AGRA, while the edible oil refinery will be leased and operated jointly by AGRA and the Pool, with each holding a one-half interest in the venture. Such an arrangement between a food producers' co-operative and our company is a natural outgrowth of today's economy, wherein the combined ability and expertise of both organizations should result in a most efficient and profitable operation.

Further financing has been arranged with SEDCO towards construction of other food processing plants in Saskatchewan. A sum totalling $2,000,000 has been placed in a trust fund by SEDCO to be used for the purchase of additional common shares from our treasury when construction begins on the new plants. Furthermore, a sum of up to $7,000,000 has been committed by SEDCO to be available as long-term mortgage financing towards construction of these plants.

Financing arrangements were also made with the Quebec Government towards construction of an oilseed processing plant, as well as facilities on year-round open water in Quebec for importing various oilseeds and exporting oilseed products. The Quebec Department of Agriculture is encouraging its farmers to develop and expand production of soybeans and rapeseed, and our proposed plant would process this seed together with any other oilseeds which could be economically imported from other parts of the world.

Engineering studies on the proposed projects are proceeding. However, in view of the very high cost of financing and the present economic uncertainties in the world, we will defer actual construction until economic conditions become more stabilized.

Our Beverage Group experienced a difficult year in 1974, primarily due to excessive sugar cost increases which continued throughout the year. These cost increases were almost impossible to keep up with and resulted in depressed earnings for the year. However, excellent earnings performances of both our Engineering and Communications Groups more than offset the disappointing results from the Beverage Group. All divisions of the Communications Group demonstrated excellent earnings increases for the year, and in spite of a harsh winter and several construction strikes, our Engineering Group enjoyed the most successful and profitable year in its history.

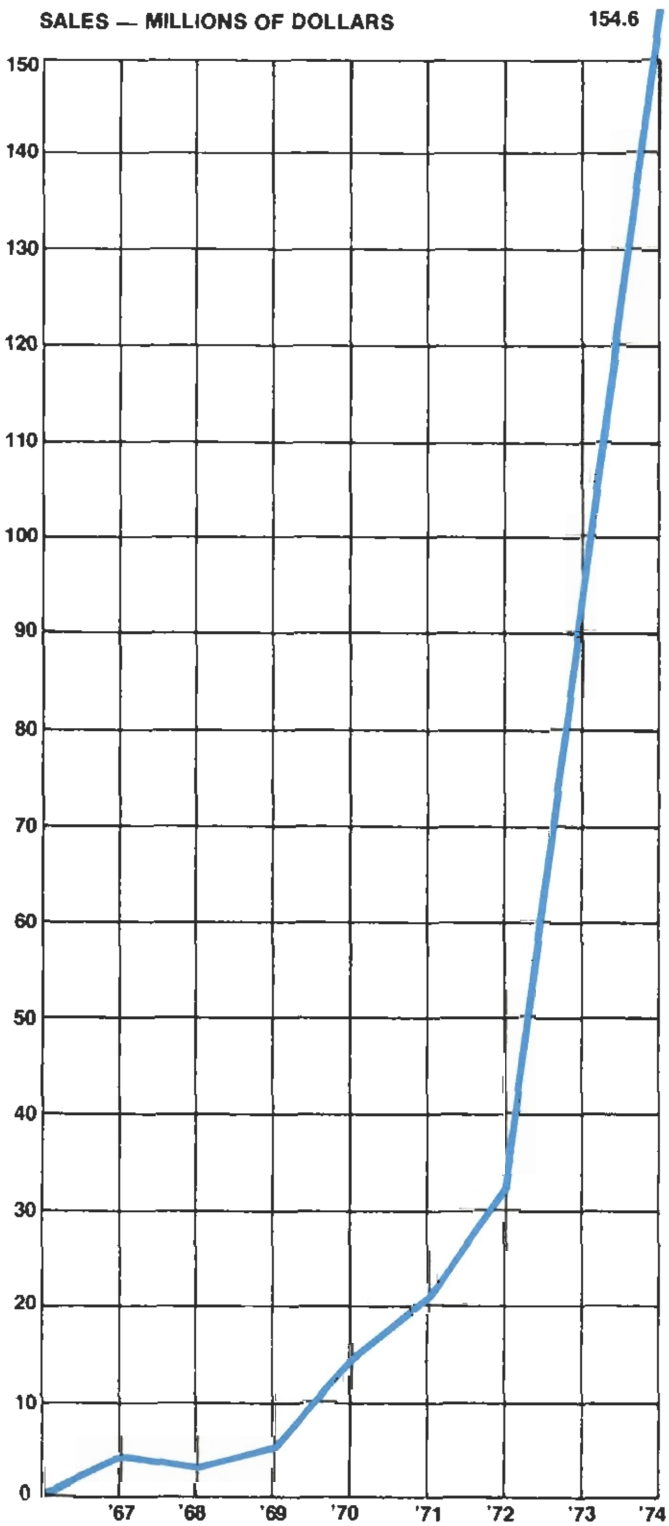
The continued financial growth and success experienced in fiscal 1974 has prompted your Board of Directors to increase the annual dividend rate from 20 cents to 24 cents per common share — an increase of twenty percent. Payment at the higher rate was commenced with the quarterly dividend payment in June. In the past two years, we have doubled the dividend rate to shareholders from 12 cents to 24 cents per annum. This 100 percent increase in such a relatively short time reflects the continuing rapid growth of your company and our confidence in its future prospects.

The first year of our second decade has undoubtedly been a difficult one. Inflation, high interest rates, volatile commodity markets and a depressed stock market have all contributed to this. Nevertheless, we have been able to maintain the growth and expansion pattern started more than 10 years ago. We are still a young and aggressive company, and the depth of experience gained in the past decade will help us take full advantage of the many opportunities which lie ahead.

Submitted on behalf of the Board of Directors,

B. B. TORCHINSKY
Chairman and President

Saskatoon
December, 1974



A. Aerial view of the rapeseed processing plant in Nipawin, Sask. B. Over 50 jumbo tank cars deliver AGRA's oil across the country. C. New metric margarine container is packed at Viscount Foods plant in Toronto. D. Sliced bacon line operating at Gainers' plant in Edmonton. E. W. J. Lafave & Sons new production plant at St. Jerome, Quebec

Foods Group

Operations of the Foods Group were made very complex during the past year by a continuous round of inflationary factors which were most difficult to control. Total revenues reached $120,201,114 for a 75 percent increase over the previous year, while earnings totalled $1,476,780.

For the first time in many years, our oilseed crushing, refining and packaging plants were able to operate without the confusion created by adjacent construction. With the expansion programs for these plants almost completed at the end of fiscal 1973, we settled down to generally uninterrupted operations and to developing maximum efficiencies in 1974. Many difficulties were still encountered. For example, crushing margins were tight, seed purchase prices were very volatile but mostly very high, and operating costs continuously moved upwards due to a multitude of inflationary forces. Despite these problems, we managed to complete a reasonably successful year.

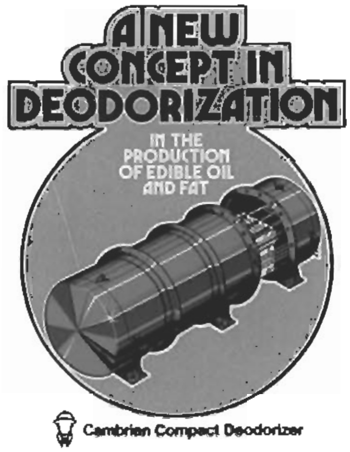
Two of our major subsidiary companies are W. J. Lafave & Sons in St. Jerome, which produces and distributes specialty shortenings, chocolate and other products to the baking industry, and Research Foods in Toronto, which produces bulk dehydrated specialty ingredients for the snack food industry. Both of these fine companies enjoyed healthy increases in business volume with corresponding earnings increases for 1974. W. J. Lafave & Sons completed their margarine packaging facility in St. Jerome and took over production and distribution of margarine and other vegetable oil products for all of Quebec. Research Foods completed the installation of a second high-capacity spray-dry oven and sterilizing equipment to provide a major increase in their plant capacity.

The meat packing operation and largest subsidiary company in our Foods Group, Gainers, with its main plant located in Edmonton, enjoyed a busy and successful 1974. Net sales were 30 percent higher than the previous year, due partly to the upward movement of prices, but also to a substantial volume increase. Special emphasis was placed on plant maintenance and upgrading of equipment, resulting in a 24 percent increase in capital expenditures over last year. This emphasis improved operating economies so that even with rising labor and material costs, an encouraging upward trend in earnings was achieved. Gainers' two year contract with a Japanese trading company to export monthly 150 tons of boneless pork cuts is proceeding satisfactorily, and expansion of sales into Eastern Canada has been gratifying and will continue to increase in the next year.

AGRA's Foods Group will face a major challenge in 1975. Rapidly escalating price levels for all food commodities, together with rapidly increasing demand for food throughout the world, will make the achievement of substantial sales increases relatively easy to attain. The challenge will lie in our ability to cope with such volume and cost increases in an efficient and profitable manner. Our recently negotiated joint venture agreement with the Saskatchewan Wheat Pool, made after the end of fiscal 1974, should help considerably by assuring a continuous flow of rapeseed to the Nipawin crushing plant and by substantially increasing our working capital position. We therefore look forward to the challenge of 1975 with confidence.

A. Greenlees' dredging operations in action. B. Western Caissons installs foundation caissons up to 125 feet deep for the Hamilton Spectator's new publishing headquarters. C. and D. Ten foot diameter caissons (largest in North America) were installed for the bridge piers over the Riviere des Prairies in Montreal. E. Greenlees repairs a CNR trestle on the Sooke Lake Line on Vancouver Island. F. Cambrian Engineering designed the structural steel for Stelco's multi-million dollar expansion in Edmonton. G. The new edible oil deodorizer developed jointly by the Cambrian Group with AGRA's Foods Group is attracting interest from major processors all over the world.

G



Engineering Group

The Engineering Group includes the Western Caissons group of companies, Greenlees Piledriving Co., the Cambrian Engineering group of companies and Torchinsky Consulting. Offices, laboratories and/or shop facilities are located in most major cities across Canada, as well as a few cities in the United States. Nearly all divisions of our Engineering Group operated at or near maximum capacity throughout most of the year, and notwithstanding a harsh winter and several construction strikes, we enjoyed the most successful and profitable year in our history. Total revenues for the group in 1974 reached $24,739,435 for an increase of some 37 percent over last year, while earnings reached $1,239,427.

Torchinsky Consulting was very busy all year in its highway design division throughout Western Canada. The geotechnical division was also very busy and conducted numerous subsurface investigations at sites for major buildings and industrial plants, including Dow Chemical of Canada and Sherritt Gordon Mines.

The Western Caissons group and Greenlees Piledriving installed foundation piles and caissons for many projects across Canada, including the Coquitlam Overpass, several potash plant expansion programs, special test caissons for the Syncrude tar sands project in Northern Alberta, and pre-drilling for blasting of rapids on the MacKenzie River in the Northwest Territories. A very special project, completed recently in Quebec, was the installation of 10 foot diameter caissons through some 30 feet of water and penetrating up to 35 feet into bedrock. These caissons were installed as piers for a bridge over the Riviere des Prairies in Montreal, and are the largest caissons ever constructed in such a manner. Internationally, we have been busy with additional subway contracts in Washington, D.C., as well as several large building projects in the U.S.A. We are also presently installing deep cooling wells for the Barbados Light and Power Company in Bridgetown, Barbados.

The Cambrian Group also enjoyed a major increase in work volume and profitability in 1974. This group has been extensively engaged in consulting to major industries such as mining, steel, sodium sulphate, potash, oil and gas, as well as conducting municipal work in the recreational, waste disposal and water supply areas. Cambrian Processes Limited (CAMPRO), our research and development company, has expanded staff and facilities, and are actively engaged in the continuing development of pollution and environmental control systems for the mining, chemical, metal processing and food industries. We are also very much involved with developmental work on rapeseed processing, including protein isolates and concentrates, dehulling, residual oil reduction, etc. The "Cambrian Compact Deodorizer" was developed by this group in co-operation with AGRA Foods, and is stirring up much interest in the industry.

For the new year we look forward to a continuing expansion in the demand for our engineering services. This should result from an increasing recognition by industry of the specialized technology continuously being developed by our Engineering Group, and by extending the areas in which we operate to include other parts of the world.

A. and B. Contain-A-Way's recycling depot in Calgary. C. Polar's soft-drink plant in Calgary. D. Quality control at Polar's canning line. E. Cans are filled at the rate of 600 per minute. F. A typical display of our soft-drink products in a supermarket.

Beverage Group

Our Beverage Group is concentrated in Calgary and Lethbridge, Alberta, where we manufacture and distribute several nationally branded soft-drink lines, including Pepsi-Cola, Seven-Up, Schweppes, Crush and Canada Dry products. Total sales for the Beverage Group reached $7,054,172 compared with $5,793,925 last year, for an increase of 22 percent. Even with this increase, earnings dropped to $18,594. This decline in earnings was caused primarily by the dramatic increase in sugar costs during the year, which was unprecedented in our history. For example, over a 6 month period, sugar costs spiralled from 10 cents per pound to a high of 60 cents per pound. Rapidly increasing costs of all other items which enter into the make-up of our soft drinks, including labor, bottles, cans, extract and distribution, increased our problems in keeping up with total costs, and resulted in reduced profits.

Profits for the Beverage Group were further eroded by Vintage Craft Limited, our wine-kit company in Toronto. Operations of this company were very disappointing, and we consequently sold the inventory and equipment during the year. We are presently examining new lines which we feel will contribute to profits next year.

Beverage container legislation has become an accepted part of the Alberta scene, and Contain-A-Way Ltd., our subsidiary company, provides service to the public, the soft-drink industry, and the wine and liquor industry by operating a successful depot system throughout the Province for collection of all containers for recycling purposes. During the past year in Alberta, consumers purchased nearly 28,000,000 bottles of wine and liquor as well as 60,000,000 canned soft drinks and 150,000,000 bottled soft drinks. New warehouse facilities, recently opened in Calgary, will expand the potential for recycling these containers.

The soft-drink market remains buoyant. Per capita consumption continues to increase despite increased costs and competition. National brands continue to dominate the market because of availability and high quality. Southern Albertans enjoyed nearly 70,000,000 of our manufactured drinks last year and we look forward to an increase in volume and in profitability next year.

A. Valley Televue's new cablecasting equipment undergoes a test run in Chilliwack, B.C. B. Dog Mountain microwave station will be used to relay TV signals to the new cable system in Kamloops, B.C. C. Construction underway on Kamloops' new cable system. D. Switcher on duty during a cablecasting program. E. Underground cable TV service is installed in a new area. F. General News supplies news stands throughout Southern Alberta.

Communications Group

AGRA's Communications Group includes several cable television systems in Western Canada as well as General News Company, our wholesale news-magazine distributor in Southern Alberta. The cable television systems include Co-Ax Cable TV in Estevan and Weyburn, Saskatchewan; CableVision Lethbridge in Lethbridge, Alberta (which is 75 percent owned by AGRA); Powell River Television in Powell River, B.C., and Valley Televue in Chilliwack, B.C. This latter company, purchased in the past year, is a very fine cable TV system located 60 miles east of Vancouver and presently has about 7,000 subscribers. The total subscriber count of all our cable systems at year-end numbered approximately 24,000 for an increase of some 40 percent over last year.

Total revenues in 1974 reached $2,690,428 compared with $2,097,330 in the previous year, for a total increase of 28 percent. Total earnings reached $221,358 which is substantially improved over last year and is due both to our internal growth and to expansion by the acquisition of Valley Televue. In addition, a continued fine performance contributed by General News helped to make 1974 a record year for the Communications Group.

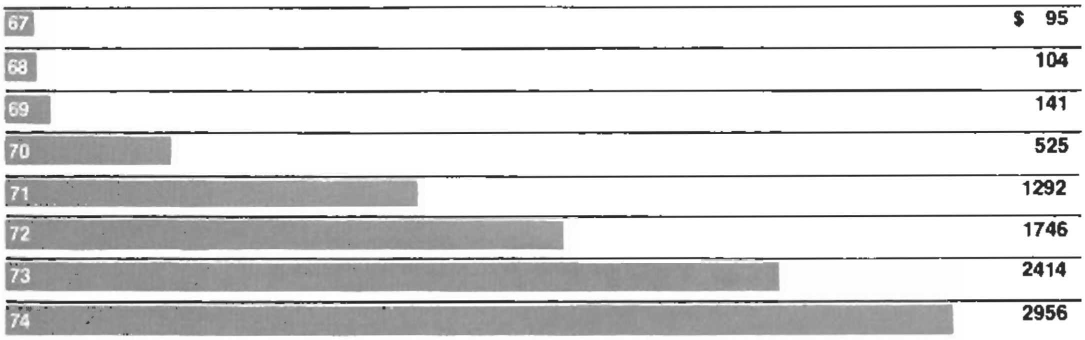
Another major accomplishment in 1974 was the acceptance by The Canadian Radio-Television Commission of our application to install a cable TV system in Kamloops, B.C. AGRA will purchase 50 percent of the shares of Mainline Cablevision of Kamloops Ltd., while the remaining 50 percent will be sold to the public in Kamloops and in other parts of British Columbia. Mainline will construct and operate the cable TV system in Kamloops, which will eventually have a potential of nearly 20,000 subscribers. Construction of the system has already begun.

The outlook for next year is excellent. Our cable systems and news magazine operations should continue to grow, and we look forward to additional expansion either through the purchase of existing companies or the construction of new systems.

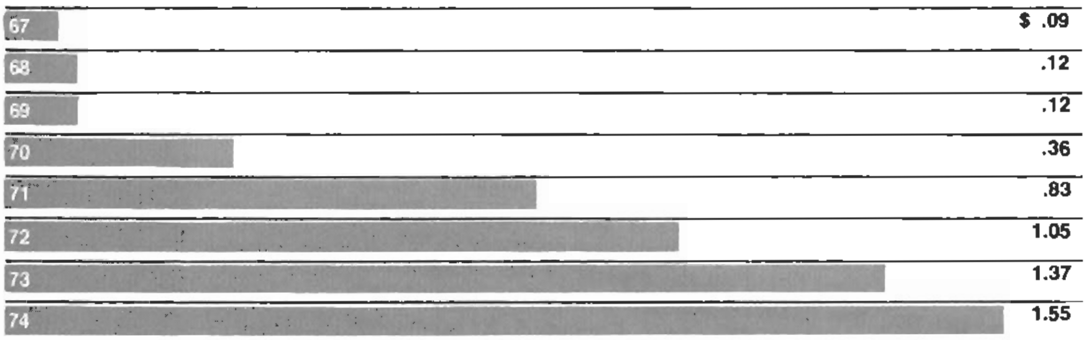
Five Year Review

EARNINGS STATISTICS	1974	1973	1972	1971	1970
Revenues	**$154,685,149**	94,613,005	32,542,237	20,945,938	14,388,899
Depreciation	**1,692,307**	1,163,237	647,896	484,614	315,527
Pre-Tax Earnings	**5,270,429**	4,252,073	3,258,395	2,392,547	758,361
Current Taxes	**744,502**	864,823	533,177	275,389	139,851
Deferred Taxes	**1,569,768**	973,168	978,528	824,776	93,133
Net Earnings	**2,956,159**	2,414,082	1,746,690	1,292,382	525,377
Cash Flow	**5,774,501**	4,550,487	3,373,114	2,601,772	933,901
Dividends Paid	**397,348**	210,850	150,493	97,204	nil
BALANCE SHEET STATISTICS					
Current Assets	**$39,172,620**	22,585,054	11,184,643	7,076,106	3,462,991
Current Liabilities	**37,946,264**	20,817,298	9,001,735	6,279,055	3,895,026
Working Capital	**1,226,356**	1,767,756	2,182,908	797,051	(432,035)
Fixed Assets — Net	**25,334,407**	21,149,650	12,752,947	8,177,940	5,165,317
Long-Term Debt	**15,646,934**	17,434,139	10,032,670	3,993,232	2,839,583
Shareholders' Equity	**16,946,808**	11,132,809	7,529,954	5,459,833	3,105,092
COMMON SHARE STATISTICS					
Earnings per Share	**$ 1.55**	1.37	1.05	.83	.36
Cash Flow per Share	**3.04**	2.58	2.03	1.68	.64
Dividends per Share	**.21**	.12	.09	.06	nil
Equity per Share	**7.97**	6.24	4.50	3.37	2.10
Return on Equity (average)	**21%**	26%	27%	30%	20%
OTHER STATISTICS					
Average Shares Outstanding	**1,896,507**	1,764,390	1,664,541	1,548,570	1,449,040
Number of Shareholders	**1,950**	1,650	1,600	1,550	1,450

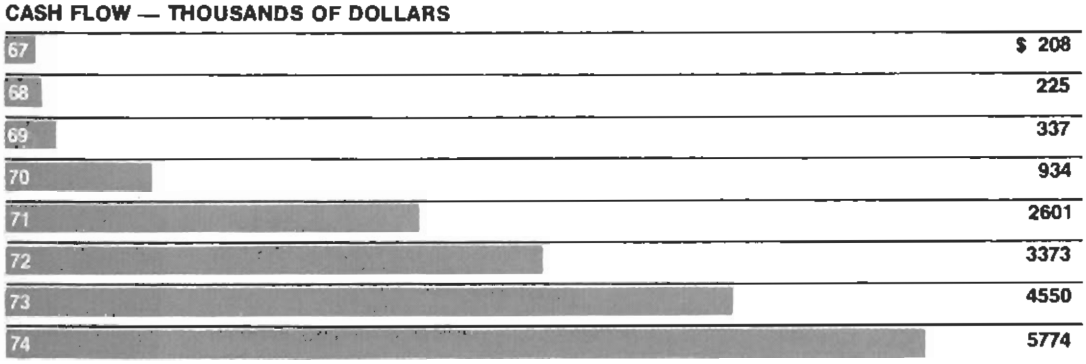
NET EARNINGS — THOUSANDS OF DOLLARS



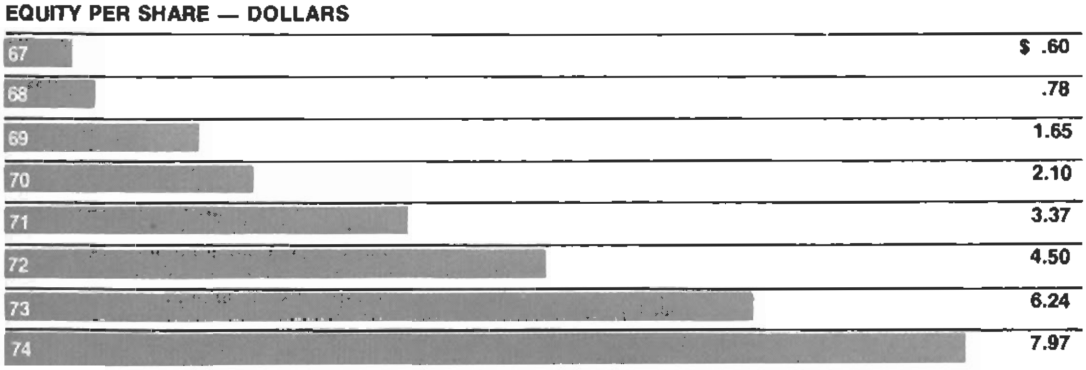
EARNINGS PER SHARE — DOLLARS



CASH FLOW — THOUSANDS OF DOLLARS



EQUITY PER SHARE — DOLLARS



Auditors Report

To the Shareholders

We have examined the consolidated balance sheet of Agra Industries Limited as at July 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Agra Industries Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of three subsidiaries, namely, W. J. LaFave & Sons Ltd., Contain-A-Way Ltd. and Magnani Inc.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at July 31, 1974 and the results of their operations and changes in their 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.

Winspear Higgins Stevenson & Co.
Chartered Accountants

SASKATOON, Canada
October 16, 1974.
(December 9, 1974 as to Note 19)

AGRA INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

Year ended July 31, 1974

	1974	1973
Revenue		
Sale of products, contracts and fees (Note 12)	**$154,685,149**	94,613,005
Expenses		
Cost of sales and services, selling, general and administrative	**145,401,610**	87,731,491
Depreciation	**1,692,307**	1,163,237
Interest on long-term debt	**1,676,461**	1,059,088
Other interest	**1,145,898**	386,477
	149,916,276	90,340,293
Earnings before income taxes and extraordinary items	**4,768,873**	4,272,712
Income taxes	**2,174,176**	1,837,991
	2,594,697	2,434,721
Minority interest	**15,585**	20,639
Net earnings before extraordinary items	**2,579,112**	2,414,082
Extraordinary items (Note 13)	**377,047**	—
Net earnings	**$ 2,956,159**	2,414,082
Earnings per share		
Before extraordinary items	**$ 1.35**	1.37
After extraordinary items	**$ 1.55**	1.37

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended July 31, 1974

	1974	1973
Balance, beginning of year	**$ 5,743,841**	3,540,609
Add net earnings	**2,956,159**	2,414,082
	8,700,000	5,954,691
Less dividends paid	**397,348**	210,850
share issue costs	**150,477**	—
	547,825	210,850
Balance, end of year	**$ 8,152,175**	5,743,841

The accompanying notes form part of these statements.

AGRA INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

July 31, 1974

ASSETS	**1974**	**1973**
Current		
Accounts receivable	**$15,841,611**	12,112,954
Inventories	**20,393,441**	10,047,796
Prepaid expenses	**325,357**	310,661
Other	**2,612,211**	113,643
	39,172,620	22,585,054
Fixed		
Land	**784,759**	982,432
Buildings	**6,903,886**	6,074,223
Equipment	**28,344,497**	23,126,932
	36,033,142	30,183,587
Less accumulated depreciation	**10,698,735**	9,033,937
	25,334,407	21,149,650
Other		
Excess cost of shares in subsidiaries	**8,677,170**	8,064,677
Deferred charges	**758,051**	685,826
	9,435,221	8,750,503
	$73,942,248	52,485,207

The accompanying notes form part of this statement.

LIABILITIES	1974	1973
Current		
Bank indebtedness (Note 3)	**$16,142,117**	10,488,224
Loan payable (Note 4)	**3,053,345**	—
Accounts payable	**13,743,641**	6,406,217
Income taxes payable	**135,348**	223,327
Current portion of long-term debt	**2,899,970**	2,948,662
	35,974,421	20,066,430
Deferred income taxes relating to current assets (Note 8)	**1,971,843**	750,868
	37,946,264	20,817,298
Long-term (Note 6)	**15,646,934**	17,434,139
Minority interest	**98,719**	119,201
Deferred income taxes	**3,303,523**	2,981,760
	56,995,440	41,352,398
SHAREHOLDERS' EQUITY		
Share capital (Note 9)		
Authorized, 3,000,000 common shares without nominal or par value		
Issued and outstanding, 2,125,606 shares	**8,372,435**	4,966,770
Contributed surplus (Note 11)	**422,198**	422,198
Retained earnings	**8,152,175**	5,743,841
	16,946,808	11,132,809
	$73,942,248	52,485,207

On behalf of the Board
B. B. TORCHINSKY — Director
T. A. McLELLAN — Director

AGRA INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended July 31, 1974

	1974	1973
Source of working capital		
Operations		
Net earnings	$ 2,956,159	2,414,082
Non-cash charges (credits)		
Depreciation	1,692,307	1,163,237
Deferred income taxes, non-current portion	347,235	970,617
Amortization of deferred charges	92,181	—
Gain on sale of fixed assets	(535,914)	—
	4,551,968	4,547,936
Proceeds from long-term debt, net of repayment	—	7,401,469
Deferred income taxes in companies acquired	(25,472)	195,015
Shares issued for the acquisition of subsidiary companies	399,965	1,377,273
Sale of shares	3,005,700	22,350
Disposals of fixed assets	1,858,672	—
	9,790,833	13,544,043
Use of working capital		
Purchase of fixed assets (1973, net of disposals)	7,199,817	9,559,940
Deferred charges	164,407	232,475
Increase in excess cost of shares of subsidiaries	612,497	3,476,644
Retirement of long-term debt, net of proceeds	1,787,205	—
Payment of dividends	397,348	210,850
Share issue costs	150,477	—
Decrease in minority interest in subsidiary companies	20,482	479,286
	10,332,233	13,959,195
Increase (decrease) in working capital (Note 8)	(541,400)	(415,152)
Working capital, beginning of year (Note 8)	1,767,756	2,182,908
Working capital, end of year	$ 1,226,356	1,767,756
Represented by		
Current assets	$39,172,620	22,585,054
Current liabilities	37,946,264	20,817,298
	$ 1,226,356	1,767,756

The accompanying notes form part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 1974

1. *Accounting Policies*

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries with provision for the interest of minority shareholders. All significant inter-company transactions are eliminated on consolidation.

Inventories

Inventories used in determining cost of sales are priced at the lower of cost and net realizable value on a first-in, first-out basis. The Company hedges certain of its commodity inventories. This policy is followed to protect profit margins from market fluctuations.

Fixed Assets

Land, buildings and equipment are carried at cost

Depreciation of fixed assets has been provided in the accounts on a straight line basis at rates estimated to provide for the amortization of the cost of the fixed assets over their estimated useful life.

Excess Cost of Shares in Subsidiaries

This represents the amount by which the purchase price of acquired shares of subsidiaries exceeded the net book value of underlying assets at date of acquisition for companies acquired prior to August 1, 1973. No amortization of this amount has been reflected in the accounts since, in the opinion of management, no diminution of value has occurred. In addition, the excess of the purchase price over the net fair value of identifiable assets at date of acquisition is recorded for companies acquired subsequent to August 1, 1973 and will be amortized on a straight line basis over forty years.

Deferred Charges

Deferred financing, development and other similar costs are amortized over the period of the related obligation or over a reasonable predetermined period.

Deferred Income Taxes

Deferred income taxes arise as a result of timing differences between recording for accounting purposes and recording for income tax purposes. These taxes may become payable in future years when deductions for accounting purposes are in excess of those reported for income tax purposes.

2. *Acquisition*

The Company acquired 100% of the outstanding shares of Valley Televue Ltd. on January 10, 1974 for a total price of $1,050,000. As consideration for the purchase price the Company issued 39,836 common shares, cash of $325,000 and entered into an agreement for $325,000. This acquisition has been accounted for on a purchase basis and accordingly the consolidated financial statements for the year ended July 31, 1974 include the results of operations since the date of acquisition.

3. Bank Indebtedness

	1974	1973
The bank indebtedness includes		
Secured bank loans	$13,690,800	$ 7,243,800
Cheques issued and uncashed	2,451,317	3,244,424
	$16,142,117	$10,488,224

The bank loans are secured by various combinations of the following: (a) General assignment of accounts receivable. (b) Assignment of inventories under Section 88 of the Bank Act (c) Assignment of fixed assets of certain subsidiaries by way of floating charge debentures

4. Loan Payable

Under an export line of credit, the Company is indebted to a lendor in the amount of $3,053,345. This indebtedness is secured by inventory of crude vegetable oil in bonded storage.

5. 6-1/2% Convertible Subordinated Debentures

During the year ended July 31, 1972 the Company issued $3,000,000 of 6-1/2% Convertible Subordinated Debentures to mature March 15, 1992. The debentures are unsecured, direct obligations of the Company subordinated to the senior indebtedness of the Company.

The debentures are convertible until March 15, 1992 on the basis of 76.923 common shares per $1,000 principal amount of debentures, equivalent to a conversion price of $13 per share.

The debentures are redeemable at any time at the option of the Company at their principal amount plus accrued interest provided that the average price at which the common shares of the Company have traded in the 30-day period prior to giving notice of redemption is at least 120% of the conversion price. The Company covenants that so long as any debentures remain outstanding, it will use all reasonable effort to purchase in the market at such time or times in each 12 month period ending March 15, a total of at least $90,000 principal amount of debentures outstanding at a price not exceeding 100% of the principal amount plus accrued interest. In the event debentures are not available for purchase in any 12 month period, the obligation is nullified in that period.

During the year ended July 31, 1974 the Company redeemed $123,000 of these debentures

6. Long-Term Debt

	1974	1973
a) Mortgages payable		
Mortgages, chattel mortgages and a floating charge debenture payable with interest rates averaging 9-1/4% (maturity dates from 1975 to 1994)	$ 4,575,408	$ 5,482,219
Other chattel mortgages payable	557,865	300,366
	5,133,273	5,782,585
b) Notes, agreements and loans *payable with interest rates* averaging 10-1/2% (maturity dates from 1975 to 1983)	10,626,631	11,690,216
c) 6-1/2% Convertible Subordinated Debentures (Note 5) ..	2,787,000	2,910,000
	18,546,904	20,382,801
Less current portion	2,899,970	2,948,662
	$15,646,934	$17,434,139

7. Restrictive Covenants

The Company is subject to certain restrictions on the payment of dividends contained in the Trust Deed providing for the 6-1/2% Convertible Subordinated Debentures, a loan agreement with a Canadian chartered bank, and other loan agreements.

The Company is subject to certain restrictive covenants contained in the agreement referred to in Notes 9 and 16(b).

8. Deferred Income Taxes

Deferred income taxes relating to current assets have been included in current liabilities. Deferred income taxes relating to current assets will not change significantly so long as related operations continue at present levels. For consistent presentation deferred income taxes relating to current assets have been reclassified for 1973 as a current liability.

9. Share Capital

Changes in the outstanding shares during the year:

Issued for cash	300,600
Issued for subsidiary company acquired in the year	39,836
Total shares issued during the year	340,436

The Company has reserved 214,384 common shares for conversion of the 6-1/2% Convertible Subordinated Debentures.

The Company has, pursuant to a Trust Indenture referred to in Note 16(b), granted a right to the noteholder to purchase 160,000 common shares at $12.50 per share. This right is exercisable until April 15, 1979. In addition, subsequent to each of the calendar years 1974 and 1975, the interest earned from the investment of the trust funds is committed to purchase shares of the Company at $12.50 per share.

10. Stock Option Plan

Under the Company's stock option plan, dated November 27, 1969, options for 17,250 common shares of the Company have been granted to employees of the Company as at July 31, 1974. The plan provides that options are exercisable for a five year period and the price at which the options can be exercised may be no less than 90% of the market value of such shares at the time the options are granted. As of July 31, 1974, 7,950 shares have been issued to employees of the Company under the plan. Additional options for 6,800 shares have been granted to employees of the Company subsequent to the year-end.

11. Contributed Surplus

Contributed surplus arises out of subsidies granted by the Federal Government in connection with the construction of plant facilities.

12. Segmented Revenue

Revenue by classification of business and percentages of the total were as follows:

	1974	%	1973	%
Foods Group	$120,201,114	77.7	$68,656,157	72.6
Engineering Group	24,739,435	16.0	18,065,593	19.1
Beverage Group	7,054,172	4.6	5,793,925	6.1
Communications Group	2,690,428	1.7	2,097,330	2.2
	$154,685,149	100.0	$94,613,005	100.0

13. Extraordinary Items

Profit on disposal of land	$ 487,922
Loss on disposal of investment	(110,875)
	$ 377,047

The above items are net of income taxes where applicable.

14. Remuneration to Directors

Remuneration to directors and senior officers for the year amounted to $494,602.

15. Lease Commitments

Rental expense for the year ended July 31, 1974 amounted to $350,650. Minimum annual rental expense under long-term leases, the longest of which will expire in 1983, for the five succeeding years average approximately $192,000 per annum.

16. Contractual Obligations and Commitments

a) Mainline Cablevision of Kamloops Ltd., a 50% owned company and whose accounts are included in these consolidated financial statements, is constructing a cable television system in Kamloops, British Columbia. The total estimated capital costs are $1,500,000. Agra Industries Limited is committed to subscribe for up to $500,000 of the issued share capital of Mainline. Agra will at all times maintain a 50% interest. If the entire $1,000,000 of share capital is not issued, Agra may be required to advance to Mainline an amount representing the difference between $1,000,000 and the total of Mainline's issued share capital. This will be contingent on the total capital costs of construction carried out by Mainline.

b) Pursuant to a financing agreement with a lendor, the lendor agreed to deposit $2,000,000 in cash with a Trustee for the purpose of future development of plant facilities by the Company in the Province of Saskatchewan. All interest earned by the investment of the funds is the property of the lendor. However, it must be invested in shares of the Company at $12.50 per share. The Company has issued a $2,000,000 non-negotiable, non-interest bearing promissory note due April 15, 1979. This note is noncallable and the Company has no contractual obligation other than as outlined in Note 9. Therefore, the funds on deposit with the Trustee and the note issued are not reflected in the consolidated financial statements.

c) Gainers Limited, a wholly-owned subsidiary of the Company, entered into an agreement in 1972 with Ranch Hand Foods Ltd. to purchase their operations, trade names and trade marks for an amount equal to the pre-tax earnings of the operation during the five year period June 5, 1972 to May 31, 1977.

17. Pending Legal Proceedings

Agra Industries Limited and its subsidiaries are defendants in lawsuits involving various amounts. The results of these actions should not have any material effect on the financial position of the Company.

18. Net Earnings per Share

No dilution	$1.55
Full dilution	$1.42

The fully diluted net earnings per share reflect earnings that would have been reported had all conversion rights been exercised.

19. Transactions Subsequent to Year-End

Subsequent to the year-end, extraordinary increases in the commodities market resulted in the removal of some hedges on future sales contracts. This decision contributed substantially to the first quarter loss of $950,000, net of income taxes, incurred in the operations of the Nipawin plant.

The Company sold its rapeseed processing plant located at Nipawin, Saskatchewan for $11,200,000 and will realize a gain, net of income taxes, of approximately $2,700,000. The Company remains in the vegetable oil and margarine business by continuing with its blending and packaging plants in Vancouver, Toronto and Montreal, and in addition will lease the packaging facilities in Nipawin and will lease and operate the oil refinery in Nipawin under a joint venture agreement for a period of ten years. As the Company will not be involved in the buying and crushing of rapeseed, hedging in the commodities market will no longer be an integral part of its operations.

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