AGRA INDUSTRIES LIMITED

ANNUAL REPORT 1977

AGRA Industries is a diversified Canadian company which operates in four general business areas — engineering, foods, beverages and communications. The Engineering Group has developed several proprietary processes and is engaged in various design and construction activities for heavy structures, industrial processes and commercial buildings. The Foods Group operates a meat packing plant and produces and distributes specialty ingredients for the food and baking industries. The Beverages Group produces and distributes several nationally branded soft-drink lines, and the Communications Group is involved in cable television, radio broadcasting and news magazine wholesale distributing.

In the Financial Post's ranking of Canada's top 200 companies in 1977, AGRA placed 133rd based on sales, 169th based on assets and 147th based on net income. AGRA is a public company with approximately 2,300,000 shares issued and held by approximately 2000 shareholders.

AGRA INDUSTRIES LIMITED

BOARD OF DIRECTORS

D. H. C. BEACH	Nipawin
J. S. BURTON	Regina
T. CHEBERIAK	Regina
S. J. HAMER	Vancouver
P. KOZICKI	Toronto
W. B. MANOLSON	Montreal
T. A. McLELLAN	Saskatoon
C. ROLES	Saskatoon
R. A. SCHWIEDER	Saskatoon
H. TENENBAUM	Toronto
B. B. TORCHINSKY	Toronto

OFFICERS AND CORPORATE MANAGEMENT

B. B. TORCHINSKY	President and Chairman of the Board
T. A. McLELLAN	Executive Vice-President and Secretary
H. TENENBAUM	Vice-President, Foods Group
P. KOZICKI	Vice-President, Engineering Group, Contracting
R. A. SCHWIEDER	Vice-President, Engineering Group, Consulting
D. S. MILAVSKY	Vice-President, Engineering Group, Marine
K. J. TAYLOR	Vice-President, Beverages Group
A. W. BEAN	Vice-President, Special Investments
S. R. TORCHINSKY	Co-ordinator, Communications Group
R. G. DITTMER	Treasurer
O. P. RITTER	Corporate Counsel

COMPANY AUDITORS

Winspear Higgins Stevenson and Co.,
Saskatoon, Saskatchewan

REGISTRAR AND TRANSFER AGENT

Common shares:
Canada Permanent Trust Company
Convertible Debentures:
Canada Trust Company

SECURITIES EXCHANGE LISTING

Toronto Stock Exchange
Montreal Stock Exchange

◀ Transmission tower for CKO All-News Radio is located in Camp Fortune near Ottawa. Effective radiated power is 100,000 watts.

REPORT TO THE SHAREHOLDERS

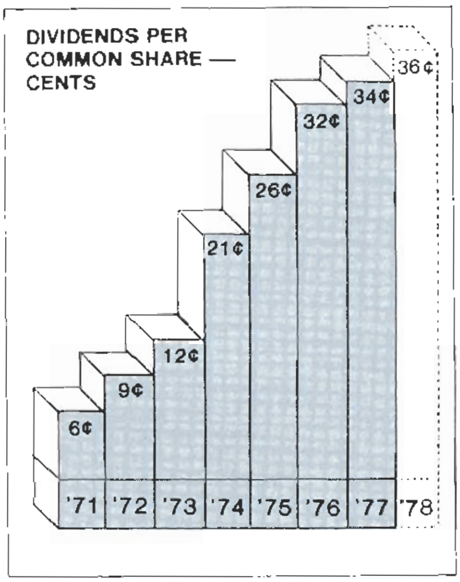
Fiscal year 1977 which ended July 31st was a difficult one for AGRA. While consolidated sales reached a record $154,077,097 for the year (compared with $149,831,095 last year), earnings from operations were seriously affected by the generally depressed economic conditions in North America. After allowing for full taxes, earnings reached only $2,139,496 or 91 cents per share (based on 2,344,840 shares outstanding) compared with $3,416,666 or $1.57 per share last year (based on 2,186,010 shares outstanding). An extraordinary loss of $506,138 reduced final earnings for 1977 to $1,633,358 or 70 cents per share. Last year, extraordinary earnings of $115,862 increased final results to $3,532,528 or $1.62 per share.

Mainly hit by the generally depressed economic situation in Canada and the United States were our two major operating groups, namely the Engineering and the Foods Groups. In the case of our Engineering Group, the depressed economic circumstances created excessive competition in locating new jobs which resulted in a very low mark-up for our work. This situation forced our management staff to sharpen up their operations and to expand their horizons in a search for new jobs. As a result, we made considerable progress in evaluating possibilities for engineering work outside of North America. One example is a joint-venture office of Western Caissons which we set up with minimal equipment in Kuwait to develop our foundation piling and caissons expertise in the Middle East. This office is performing well and we have already taken steps to enlarge its scope and size.

The second major group influenced by the generally depressed economic situation in Canada was our Foods Group. In this case the area mainly affected was the AGRA Foods operation in western Canada made up of the Nipawin based edible oil refinery and the margarine packaging operations not included when we sold most of our rapeseed processing division two years ago. As a result, near the year-end we decided to sell these remaining operations. A substantial extraordinary loss of $506,138 was caused partly by the losses resulting from the discontinued operations of this division and partly by losses incurred in the sale of their assets. The other divisions in our Foods Group performed reasonably well and in fact Research Foods, our specialty foods processor in Toronto, enjoyed record increases in both sales volume and earnings. Gainers Limited, our meat packing plant in Edmonton, experienced some reduction in earnings compared with last year due to increasing operating costs and a tight squeeze on profit margins. However, because of its export business and its efficient plant operations, Gainers managed to post a respectable return for the year's efforts. W. J. Lafave & Sons, our specialty supplier to the baking trades with plants in Montreal and Toronto, also experienced some reduction in earnings compared with last year. Under the circumstances however, they also produced an acceptable performance for the year.

Both our Beverages Group and our Communications Group enjoyed satisfactory results for the year and our Communications Group in fact repeated last year's performance by again turning in record-breaking operating results. This is the eighth consecutive year in which the Communications Group has demonstrated improvement over the previous year's results. The performance of our Beverages Group is most impressive in view of the disturbances they had to contend with during the reorganization of their operations to serve all of southern Alberta from their newly enlarged Calgary facilities. This included the start-up of a new bottling line in Calgary and the simultaneous closing down of the old Lethbridge production line. The expansion program is now complete and the Beverages Group can settle down to a more organized pattern of operations which should help to further enhance their operating results. The Communications Group repeated their pattern of showing annually improved results because of the growth of our cable systems, particularly in Kamloops, Chilliwack and Lethbridge. Our wholesale magazine distribution operations in southern Alberta also showed excellent growth for the year, particularly in its educational book department which features paperback editions of educational text books.

Subsequent to our year-end we purchased two new companies which should enhance AGRA's future performance. Agreement was made in March, 1977 to purchase a controlling interest in Wired City Communications Ltd. subject to approval of the Canadian Radio-television and Telecommunications Commission (CRTC). This is a public company which operates a cable television system in part of Scarborough (Toronto), and after CRTC approval was granted in October, we completed the purchase of approximately 82 percent of the outstanding shares of the company. We also purchased all of the outstanding shares of Mocoat Industries Ltd. located south of Calgary. This company is a major manufacturer of fibreglass reinforced plastic storage and process vessels. We have been very close to this company for several years since Cambrian Engineering, one of our consulting engineering companies in Calgary, has provided considerable design expertise to Mocoat.



During the year we generated a cash flow of over five million dollars. In addition, we issued a debenture which provided a further ten million dollars amortized over a 15 year period. Of this money, six million dollars was used to refinance older short-term loans and the balance provided sufficient funds to pay for our new acquisitions as well as for substantial capital expansion programs. We also obtained permission from the Anti-Inflation Board to increase our regular quarterly dividend from eight to nine cents per quarter and we therefore increased dividend payments to an annual rate of 36 cents on our Class A common shares and 30.6 cents on our Class B common shares. This represents the seventh annual increase in rate of dividend payments in as many years, and illustrates our continuing confidence in the future of our company.

I am sad to report the death in July of one of our close associates, Mr. Jack Pilling. We purchased Valley Televue, our cable television system in Chilliwack, from Jack and his partner in 1973. Since then he acted as a special consultant to our Communications Group and was a director of Valley Televue and Mainline Cablevision of Kamloops. Jack was very active in community and business affairs in British Columbia and he was well known and loved by many, many people. He will be sorely missed.

I consider that fiscal 1977 has been a very special year in AGRA's history. This is the year we ended once and for all our involvement with the volatile grain commodities markets. It is the year we accomplished considerable "sharpening up" of our operations to cope with generally depressed economic conditions. It is the year we seriously established an involvement in overseas markets in the engineering field. And it is the year AGRA reached a more stable and healthy financial condition than ever before. All of these accomplishments place us in an excellent position to face whatever 1978 may bring and to forge ahead towards even higher plateaus.

Submitted on behalf of the Board of Directors,

B. B. Torchinsky
Chairman and President

Saskatoon
November, 1977

AGRA INDUSTRIES LIMITED

Ten Year Review

EARNINGS STATISTICS	1977
Revenues	*$146,445,214
Depreciation	*2,809,913
Pre-Tax Earnings	*3,572,745
Income Taxes	*1,433,249
Net Earnings	*2,139,496
Cash Flow	*5,841,809
Dividends Paid	761,209
BALANCE SHEET STATISTICS	
Current Assets	38,157,933
Current Liabilities	28,592,991
Working Capital	9,564,942
Fixed Assets — Net	25,572,113
Long-Term Debt	19,220,781
Shareholders' Equity	24,465,701
COMMON SHARE STATISTICS	
Earnings per Share	*.91
Cash Flow per Share	*2.49
Dividends per Share	.34
Equity per Share	10.32
Return on Equity (average)	*9%
OTHER STATISTICS	
Average Shares Outstanding	2,344,840
Number of Shareholders	1,900

1976	1975	1974	1973	1972	1971	1970	1969	1968
$149,831,095	*121,104,857	154,685,149	94,613,005	32,542,237	20,945,938	14,388,899	4,889,355	2,884,621
2,242,105	*1,594,556	1,692,307	1,163,237	647,896	484,614	315,527	58,782	43,273
6,318,784	*4,820,837	5,270,429	4,252,073	3,258,395	2,392,547	758,361	274,022	194,919
2,786,256	*2,397,730	2,314,270	1,837,991	1,511,705	1,100,165	232,984	133,225	90,793
3,532,528	*2,423,107	2,956,159	2,414,082	1,746,690	1,292,382	525,377	140,797	104,126
6,767,819	*5,439,024	5,774,501	4,550,487	3,373,114	2,601,772	933,901	337,325	225,428
685,687	553,570	397,348	210,850	150,493	97,204	nil	51,638	41,565
$ 30,603,645	28,860,017	39,172,620	22,585,054	11,184,643	7,076,106	3,462,991	1,189,655	739,623
23,536,967	26,142,108	37,728,360	20,817,298	9,001,735	6,279,055	3,895,026	819,778	447,821
7,066,678	2,717,909	1,444,260	1,767,756	2,182,908	797,051	(432,035)	369,877	291,802
22,610,704	18,492,437	25,136,753	21,149,650	12,752,947	8,177,940	5,165,317	2,940,064	810,745
15,167,565	11,661,885	15,646,934	17,434,139	10,032,670	3,993,232	2,839,583	1,565,532	302,200
22,610,191	19,316,386	16,946,808	11,132,809	7,529,954	5,459,833	3,105,092	2,020,998	691,914
$ 1.62	*1.14	1.55	1.37	1.05	.83	.36	.12	.12
3.10	*2.55	3.04	2.58	2.03	1.68	.64	.27	.27
.32	.26	.21	.12	.09	.06	nil	.05	.05
10.18	9.06	7.97	6.24	4.50	3.37	2.10	1.65	.78
17%	*13%	21%	26%	27%	30%	19%	10%	17%
2,186,010	2,129,177	1,896,507	1,764,390	1,664,541	1,548,570	1,449,040	1,229,090	831,296
1,900	2,000	1,950	1,650	1,600	1,550	1,450	1,100	650

* 1977 and 1975 statistics are based on continuing operations.

AGRA INDUSTRIES LIMITED

Financial Reports for Fiscal Year 1977

◀ Beer Precast Concrete produced in Toronto the architectural wall panels for the Medical Care Facility in Taylor, Michigan.

AUDITORS' REPORT

To the Shareholders

We have examined the consolidated balance sheet of Agra Industries Limited and Subsidiary Companies as at July 31, 1977 and the consolidated statements of income and 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 companies as at July 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.

Winspear Higgins Stevenson & Co.

Chartered Accountants

SASKATOON, Canada
October 5, 1977

AGRA INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED JULY 31, 1977

	1977	1976
Revenue		
Sale of products, contracts and fees (Note 10)	**$154,077,097**	$149,831,095
Expenses		
Cost of sales and services, selling, general and administrative (Note 12)	**145,022,572**	139,176,302
Depreciation	**2,818,559**	2,242,105
Interest on long-term debt	**2,093,688**	1,390,262
Other interest	**752,904**	819,867
	150,687,723	143,628,536
Earnings before income taxes and extraordinary items	**3,389,374**	6,202,559
Income taxes	**1,433,249**	2,660,958
	1,956,125	3,541,601
Earnings (loss) of non-consolidated entities	**183,371**	(124,935)
Net earnings before extraordinary items	**2,139,496**	3,416,666
Extraordinary items (Note 11)	**(506,138)**	115,862
Net earnings	**$ 1,633,358**	$ 3,532,528
Earnings per share		
Before extraordinary items	**$ .91**	$ 1.57
After extraordinary items	**$ .70**	$ 1.62

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED JULY 31, 1977

	1977	1976
Balance, beginning of year	**$ 13,591,050**	$ 10,865,613
Add net earnings	**1,633,358**	3,532,528
	15,224,408	14,398,141
Less: Dividends paid	**761,209**	685,687
Tax paid on undistributed income	**32,693**	121,404
	793,902	807,091
Balance, end of year	**$ 14,430,506**	$ 13,591,050

See accompanying notes.

AGRA INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET
JULY 31, 1977

ASSETS	1977	1976
Current		
Accounts receivable	**$22,862,278**	$17,811,612
Income taxes recoverable	**809,161**	—
Inventories and contracts in progress	**13,874,765**	12,063,839
Prepaid expenses	**487,905**	445,457
Other	**323,824**	282,737
	38,157,933	30,603,645
Investments		
Equity in non-consolidated entities	**2,408,564**	938,735
Other — at cost	**831,732**	1,150,307
	3,240,296	2,089,042
Fixed		
Land	**1,528,206**	705,529
Buildings	**7,125,215**	5,852,470
Equipment	**32,591,470**	28,989,891
	41,244,891	35,547,890
Less accumulated depreciation	**15,672,778**	12,937,186
	25,572,113	22,610,704
Other		
Excess cost of shares in subsidiaries and acquired goodwill	**8,169,189**	8,471,206
Deferred charges	**776,432**	638,345
	8,945,621	9,109,551
	$75,915,963	$64,412,942

ON BEHALF OF THE BOARD
B. B. TORCHINSKY — Director
T. A. McLELLAN — Director

See accompanying notes.

LIABILITIES	1977	1976
Current		
Bank indebtedness (Note 4)	**$10,563,199**	$ 6,524,506
Accounts payable	**12,903,316**	11,623,268
Income taxes payable	**—**	824,164
Current portion of long-term debt	**3,220,119**	3,165,598
	26,686,634	22,137,536
Deferred income taxes	**1,906,357**	1,399,431
	28,592,991	23,536,967
Long-term (Note 6)	**19,220,781**	15,167,565
Deferred income taxes	**3,636,490**	3,098,219
	51,450,262	41,802,751
SHAREHOLDERS' EQUITY		
Share capital (Note 8)		
Authorized		
Class A common voting convertible shares, without nominal or par value		
Class B common voting convertible shares, without nominal or par value		
Issued and outstanding		
1,723,482 Class A shares		
646,077 Class B shares		
2,369,559	**10,035,195**	9,019,141
Retained earnings	**14,430,506**	13,591,050
	24,465,701	22,610,191
	$75,915,963	$64,412,942

AGRA INDUSTRIES LIMITED **AND SUBSIDIARY COMPANIES**

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED JULY 31, 1977

	1977	1976
Source of working capital		
Operations		
Net earnings	$ 1,633,358	$ 3,532,528
Non-cash charges (credits)		
Depreciation	2,818,559	2,242,105
Amortization of deferred charges	72,523	43,743
Amortization and writedown of excess cost of shares in subsidiaries	340,957	34,489
Deferred income taxes — non-current portion	538,271	2,062,915
Loss (gain) on sale of fixed assets	57,950	(124,320)
(Earnings) loss in non-consolidated entities	(183,371)	124,935
Other	—	(3,203)
	5,278,247	7,913,192
Proceeds from		
Investments	380,354	222,568
Disposal of fixed assets	827,640	457,743
Long-term debt	7,183,650	5,919,521
Long-term debt in companies acquired	209,730	—
Issue of share capital	1,016,054	568,368
Other	—	127,598
	14,895,675	15,208,990
Use of working capital		
Investments in non-consolidated entities	1,074,345	300,000
Investments — other	273,892	369,932
Purchase of		
Fixed assets	4,851,626	5,824,829
Fixed assets in companies acquired	1,813,932	858,612
Deferred expenses	210,610	295,960
Excess cost of subsidiaries and purchased goodwill	38,940	10,000
Retirement of long-term debt	3,340,164	2,393,797
Payment of dividends	761,209	685,687
Tax paid on undistributed income	32,693	121,404
	12,397,411	10,860,221
Increase in working capital	2,498,264	4,348,769
Working capital, beginning of year	7,066,678	2,717,909
Working capital, end of year	$ 9,564,942	$ 7,066,678
Represented by		
Current assets	$38,157,933	$30,603,645
Current liabilities	28,592,991	23,536,967
	$ 9,564,942	$ 7,066,678

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — JULY 31, 1977

1. Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of all companies in which the Company holds a majority interest other than as outlined in Note 3.

The equity method of accounting is applied to investments in other entities.

Inventories

Inventories used in determining cost of sales are priced at the lower of cost and net realizable value. Engineering and construction contracts in progress are recorded at estimated realizable value on the percentage of completion basis.

Fixed Assets

Land, buildings and equipment are carried at cost. Depreciation of buildings and equipment has been provided in the accounts on a straight-line basis at rates estimated to provide for the amortization of cost of the buildings and equipment over their estimated useful life.

Profits and losses on the sale of fixed assets are included in earnings from operations unless of an extraordinary nature.

Excess Cost of Shares of Subsidiaries Acquired

For those companies acquired subsequent to August 1, 1973, the excess of the purchase price over the net fair value of identifiable assets is being amortized on a straight-line basis over forty years.

For those companies acquired prior to August 1, 1973, the excess of the purchase price over the net book value of the underlying assets at date of acquisition is not being amortized, since in the opinion of management, no diminution of value has occurred.

Deferred Charges

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

Deferred Income Taxes

The Company records the estimated future tax benefit from operating losses, when in the opinion of management, the realization of such benefits is virtually assured. In addition, the Company records the estimated future tax liability that may arise as a result of timing differences between recording for accounting purposes and recording for income tax purposes.

2. Acquisitions

During the year the Company acquired the following:

100% of the outstanding shares of Baer Precast Concrete Limited for $1,900,000 in cash, 144,830 Class A shares of the Company, and promissory notes of $1,000,000 for a total consideration of $3,900,000.

50% of the outstanding shares of Jenson and Reynolds Construction Co. for $58,264 in cash.

3. Non-consolidated Subsidiary

The Company is the registered owner of 75% of the voting shares of Mainline Cablevision of Kamloops Ltd. However, as a condition of the license issued by the Canadian Radio-television and Telecommunications Commission, the Company must divest itself of its equity in excess of 50% by July 31, 1982.

Mainline Cablevision of Kamloops Ltd. is a public company, incorporated under the laws of the province of British Columbia and is listed on the Vancouver Curb Exchange.

This investment is accounted for on an equity basis.

4. Bank Indebtedness

	1977	1976
The bank indebtedness includes:		
Secured bank loans	$ 8,427,066	$ 5,976,098
Cheques issued and uncashed	2,136,133	548,408
	$10,563,199	$ 6,524,506

The bank loans are secured by general assignments of accounts receivable and inventories.

5. 6½% Convertible Subordinated Debentures

During 1972 the Company issued $3,000,000 of 6½% 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, 1977, the Company redeemed $167,000 of these debentures.

6. Long-Term Debt

	1977	1976
Mortgages and chattel mortgages payable with interest rates averaging 11% (maturity dates from 1978 to 1989)...................	$ 2,208,159	$ 3,063,182
Notes, agreements and loans payable with interest rates averaging 9.6% (maturity dates from 1977 to 1987)...................	17,762,741	12,632,981
6½% Convertible Subordinated Debentures (Note 5)..................	2,470,000	2,637,000
	22,440,900	18,333,163
Less current portion..................	3,220,119	3,165,598
	$19,220,781	$15,167,565

7. Dividend Restrictions

The Company is subject to certain restrictions on the payment of dividends contained in the Trust Deed providing for the 6½% Convertible Subordinated Debentures and a loan agreement with a Canadian chartered bank.

Under the terms of the Anti-Inflation Act, increased dividend payments for 1978 may be restricted.

8. Share Capital

Changes in the outstanding shares during the year:

Issued for cash (Class A shares)	3,438
Issued for subsidiary company acquired (Class A shares)	144,630
	148,068

The Company has reserved 190,000 Class A common shares for conversion of the 6½% Convertible Subordinated Debentures.

The Company has, pursuant to an agreement with a former lendor, granted a pre-emptive right to maintain its percentage ownership in the Company. During the year 2,838 Class A shares were issued under this agreement for cash.

9. Stock Option Plan

Under the Company's stock option plan, dated November 27, 1969, options for 30,550 common shares of the Company have been granted to employees of the Company as at July 31, 1977. 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, 1977, 13,000 shares have been issued to employees of the Company under the plan.

10. Segmented Revenue

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

	1977	%	1976	%
Foods Group				
Continuing operations	$ 82,478,606	53.5	$ 77,390,908	51.7
Discontinued operations (Note 12)	7,631,883	5.0	8,191,516	5.5
Engineering Group	47,960,799	31.1	50,518,556	33.7
Beverages Group	11,615,345	7.6	9,850,328	6.6
Communications Group	4,390,464	2.8	3,879,787	2.5
	$154,077,097	100.0	$149,831,095	100.0

11. Extraordinary Items

	1977	1976
Gain on sale of fixed assets (net of income taxes)	$ —	$ 58,160
Gain (loss) on discontinued operations (net of income taxes) (Note 12)	(260,971)	57,702
(Loss) on sale of fixed assets and goodwill of discontinued operations (net of income taxes)	(245,167)	—
	$(506,138)	$115,862

12. Discontinued Operations

During the year the Company completed the disposition of certain of its food operations under a plan that commenced in the year ended July 31, 1975. The net results from discontinued operations have been reflected as extraordinary items in the consolidated statement of earnings.

13. Remuneration to Directors and Senior Officers

Remuneration to 21 directors and senior officers amounted to $779,000 for the year.

14. Lease Commitments

Minimum annual rental expense under long-term leases, the longest of which will expire in 1994, for the five succeeding years average approximately $360,000 per annum.

15. Contractual Obligations and Commitments

During the year ended July 31, 1975 the Company acquired 75% of the outstanding shares of Mainline Cablevision of Kamloops Ltd. with the approval of the Canadian Radio-television and Telecommunications Commission. Agra is committed to reduce its ownership of shares to 50% by July 31, 1982.

During the year Agra advanced $700,000 to Canada All-News Radio Limited which represents approximately one half of its intended investment in this company. This company is establishing a radio network across Canada. Agra intends to own a minimum 45% of the outstanding shares of this company and will guarantee certain of its indebtedness.

Under the agreement to purchase the shares of Wired City Communications Ltd. (Note 18) Agra committed itself to a "takeover bid" for 72,743 outstanding shares not included in the purchase agreement at a price of $3 per share.

16. 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.

17. Fully Diluted Net Earnings per Share

	1977	1976
Before extraordinary	$.87	$1.49
After extraordinary	.67	1.54

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

18. Transactions Subsequent to Year-End

The Company acquired 79% of the outstanding shares of Wired City Communications Ltd. for $830,236 in cash and promissory notes for $904,016 for a total consideration of $1,734,252, to bring its total holdings to 82% (Note 15).

The Company acquired 100% of the outstanding shares of Mocoat Industries Ltd. for $100,000 in cash and a promissory note for $60,000 for a total consideration of $160,000.

19. Anti-Inflation Controls

The Company is subject to the Federal Government's Anti-Inflation Act and Regulations.

Western Caissons install 6000 precast concrete piles for Doha Power Station in Kuwait. ▶


BELT
LINK-BELT

Meredith Drilling installs power line foundations in Colorado. ▶

The coast guard dock near Dallas Road in Victoria, B.C. was constructed by Greenlees Piledriving in 1977

▲

Coast Steel Fabricators fabricated the steel framing for the Burrard Inlet Ferry Terminal building in British Columbia.

This fibreglass reinforced plastic smokestack for *Western Co-operative's fertilizer plant in Calgary* was designed by Cambrian Engineering.

▼

Western Caissons install 5 foot caissons 90 feet deep for the Philip Sporn power plant in West Virginia.

MANAGEMENT REPORTS ON OPERATIONS FOR 1977

AGRA INDUSTRIES LIMITED

ENGINEERING GROUP

With but a few exceptions, most of the divisions which make up AGRA's Engineering Group showed disappointing results for fiscal 1977. In spite of maintaining a reasonably high sales volume of $47,960,799 for the year compared with $50,518,556 in the previous year, earnings were drastically reduced to only $288,905 after taxes compared with last year's $1,201,459. A few bright spots dominated the year and these included our Western Caissons operations in Alberta and Saskatchewan, which maintained a good volume of business with satisfactory earnings for their efforts. Similarly, Torchinsky Consulting and BBT Geotechnical Consultants, operating primarily in Alberta and Saskatchewan, produced excellent results with a good growth in business and volume. The remaining divisions showed mainly lacklustre results.

The major cause of our problems was a generally depressed economic situation in both the Canadian and the American economies. A snowballing effect of this situation occurred because the depressed economy reduced available capital for industrial expansion, resulting in a reduction in available work load which caused increased competition for whatever work became available. This in turn caused management to make unreasonably optimistic assessments of job costs in their anxiety to maintain a full work load. Under such pressures, errors in judgement can easily be made, leading to fatal operating results. In our particular case, a compounding factor to all of the above was the weather. Since a large part of our engineering work is carried on outdoors, the weather can enhance or seriously disrupt our operations. And in 1977 the weather did not co-operate — particularly in eastern Canada.

All of our recently acquired companies including Beer Precast in Toronto, Coast Steel Fabricators in Vancouver and Meredith Drilling in Colorado were affected by the same slowdown in the economy. While this reduced earnings for all of them, nevertheless they all demonstrated an ability to cope realistically and effectively with the problems. Beer Precast are presently organizing an operation in Alberta, where their special expertise should prove most valuable in the next few years of energy-associated growth and development. Coast Steel Fabricators expanded the scope of their operations by taking over Ridgeway Fab-

Jerry Bishop and Peter Kozicki board company jet ▶ belonging to our associate in Kuwait.

Jensen & Reynolds constructed the fishing wharf at Point Pinole in the San Pablo Bay area north of San Francisco.

▲
Beer Precast produce brick faced precast concrete wall system for federal government office building in Hull, Quebec.

Beer Precast produce curved wall panels with ribbed finish for the Faculty of Education in Ottawa.

Cambrian Engineering is the construction project manager for a 3 million dollar school in the far north.

ricators, a small manufacturer of open-web steel joists. Meredith Drilling's performance was hurt early in the year by a sudden cancellation of some major government contracts. Some of these have now been re-instated and as a result, Meredith's outlook for 1978 is much improved.

Early in the year we purchased a fifty percent interest in a small company, Jensen & Reynolds Construction Co. of San Francisco. This company specializes in marine construction including pilings, breakwaters, dock structures, etc. The company earned a small profit during the year and we anticipate increased activities next year.

Our involvement with Sandisle Structures, in which we hold a 50 percent interest, continued at a slower pace during the year. The company successfully completed an experimental breakwater structure for the federal government in the Maritimes and depending on the performance of this test section during the next year, considerably more breakwater sections may be constructed next year. Intensive evaluation studies have also been conducted on our concept by a major oil company for use of the sandisle structure as a drilling and production platform in the Beaufort Sea, however no firm contract has yet come out of this.

During the year we established a small Western Caissons operation in Kuwait to explore the Middle East market for our caisson and foundation business. Performance of this office was very successful and we were encouraged to send considerably more equipment to enlarge the scope of business in that area. We are confident that our work in this part of the world is just beginning and we anticipate rapid expansion and excellent results in the near future.

Although overall results of our Engineering Group have been disappointing, nevertheless there is a silver lining in the clouds. It is clear that the economic conditions which created problems for us were not of our own making, and it is equally clear that our managers have demonstrated an ability to cope with these conditions and to come up with operating adjustments necessary to live with the problems. The qualities developed in our staff by the difficulties encountered will serve us well in the future.

T. A. McLellan inspects Western Caissons operations in the Middle East.

Project management for the Prairie Mall (Canada) Ltd. plant in Biggar was provided by the Cambrian ▶ *Engineering Group.*

Automatic control panel in Research Food's plant in Toronto.

W. J. Lafave operates a quality control lab in its plant located near Montreal where all products are checked continuously. ▼

Coast Steel Fabricators produced this rigid frame section.

FOODS GROUP

In spite of an increased sales volume for 1977, AGRA's Foods Group ended the year with a reduced profit picture compared with the previous year. Total sales of $90,110,489 produced after-tax earnings of only $921,942 compared with sales volume last year of $85,582,424 which produced after-tax earnings of $1,366,748. This reduced level of performance was further eroded by an extraordinary loss of $506,138 which resulted from the discontinued operations of our Nipawin-based edible oil refinery and margarine packaging operations in western Canada together with the sale of assets from these operations near year-end. The major portion of our assets and operations in the rapeseed oil processing field were originally sold two years ago. The decision to sell the remaining assets at year-end was made because we recognized inherent inefficiencies in operating arrangements made at the time of the original sale. Furthermore, this decision frees AGRA completely from substantial leasing and financial obligations undertaken at that time.

The largest single division of our Foods Group, Gainers Limited, produced a reasonable but not a record performance for 1977. Sales volumes continued to exceed those of previous years, however profits were reduced because the meat packing industry, particularly in western Canada, is caught in a difficult squeeze. On the one hand, demand for livestock by processors attempting to offset climbing costs by increasing volume, kept pushing the cost of livestock upwards. On the other hand, extreme competition at the market level made it most difficult to recover the increased costs through upward pricing of products. This squeeze on operating profits in the meat packing industry is expected to continue into 1978. Our position is very good however, since Gainers can concentrate on producing its specialty meat products which enjoy an excellent reputation in the market place. Furthermore, we are constantly improving operating efficiencies in the plant which is blessed with an excellent team of management and personnel. This, together with the export business we have developed in past years in Japan and other countries, should help us to come through a most difficult period in the meat packing industry in better shape than ever.

Both our W. J. Lafave and our Research Foods divisions had successful years for fiscal 1977. Research Foods performed particularly well and expanded their plant and laboratory facilities substantially during the year. The company is proceeding with current emphasis on enzyme research and specialized dietary food ingredients. W. J. Lafave encountered some difficulties due to the sharp increase in the cost of cocoa which is used extensively in their chocolate products for the baking industry. In spite of the fact that the cost of cocoa rose rapidly from 50 cents to $3.25 per pound, the com-

Ravioli is formed and filled with meat at Magnani's ▶ plant in Montreal.

Processing product prior to dehydration stage is an art as well as a science at Research Foods.

Exterior view of Gainers plant in Edmonton.

Crushed glass is loaded at our Contain-A-Way plant in Calgary for recycling into reflecting paint.

pany managed to come through the year with a reasonable return for its efforts.

While the recent sale of our AGRA Foods operations in western Canada will create some reduction in sales volume for our Foods Group in the new year, nevertheless because of the high efficiency of the remaining operations, we anticipate that the net profit picture will be at least as good if not better than in recent past years. Furthermore, the elimination of our involvement in the uncertainties and risks inherent in the grain commodities markets will help substantially to stabilize our position in the food processing industry and to enhance our performance in the future.

BEVERAGES GROUP

Another excellent performance was chalked up for fiscal year 1977 by AGRA's Beverages Group which manufactures and distributes several nationally branded soft-drink lines in southern Alberta. Products include Pepsi-Cola, Seven-Up, Crush and Canada Dry brands, all of which are manufactured in AGRA's large bottling and canning facility housed in a modern 80,000 square foot plant in Calgary. Our canning operation produces all brands and flavors of canned soft-drinks on a custom basis for delivery throughout Alberta and into the eastern portion of British Columbia. The Beverages Group also operates a successful depot system throughout the province of Alberta for collection of soft-drink containers as well as wine and liquor bottles for recycling purposes.

Total sales for the Beverages Group reached a record $11,615,345 compared with $9,850,328 last year and after-tax earnings reached $503,062 compared with $575,960 in the previous year. While the year's results do not quite measure up to last year, nevertheless we consider them to be very impressive, particularly since they were produced in a year of intense competition, a year of increased economic and governmental pressures, a year when saccharin was banned and a year when the weather was generally not good. This performance was accomplished by powerful merchandising efforts and by improved operating efficiencies to meet the challenge.

During the year the consolidation of our production facilities was completed by the closing down of our Lethbridge production line and the installation of a new high speed bottling line in Calgary, which has the capacity to fill bottles up to the large 1½ litre size. We also made changes in our can line packaging equipment to produce a plastic overwrapped

▲ Ken Taylor and Andy Wangen check our new shrink pack line in Calgary.

▲ Family reading centre installed and serviced by General News in a local retail chain store.

Visual inspection by Rosemary Typick on our new 1½ litre bottling line in Calgary.

package of six cans which are then packed four to a tray. The new six-pack of cans is an excellent marketing package and the new 1½ litre bottles are fast gaining in popularity.

About mid-year we made a modest investment in the vending business in Calgary when we purchased Stampede Vending, which supplies industrial accounts with a full service line of soft-drinks, coffee and snacks. Results for the short time we have operated this company have been very encouraging and we plan to expand the operations considerably in the new year. The business of Stampede Vending is a natural extension to the sale of soft-drinks through vending machines in which we are already very much involved. The addition of other lines to the vending process, such as coffee and snacks, can be readily and efficiently administered by our existing field staff and we are therefore confident of our ability to develop this business on a profitable basis.

Our Contain-A-Way operation continues to serve the Alberta soft-drink industry and the Alberta Liquor Control Board with 185 collection depots scattered throughout the province as well as major sorting and processing plants in Calgary and Edmonton. We own and operate our own trucking fleet to service all our depots, and this operation has proved very satisfactory and efficient in its efforts to collect and recycle containers from the soft-drink, liquor and wine industries.

Since there are no major operational changes planned for next year, we predict a year of consolidation and steady growth for our Beverages Group. Government activities with respect to packaging controls, litter legislation and Anti-Inflation Board controls will no doubt affect us. However, with a reasonable break in weather conditions and with the ongoing development of Alberta as the energy centre of Canada, we look forward to once again producing a record-breaking performance.

AGRA INDUSTRIES LIMITED

COMMUNICATIONS GROUP

AGRA's Communications Group includes a news magazine wholesale distributor in southern Alberta and cable television systems in several western Canadian cities including Estevan, Weyburn, Lethbridge, Powell River, Chilliwack and Kamloops. We own all these systems completely except Powell River which is 99 percent owned and Kamloops which is 75 percent owned. Total number of subscribers served by our cable companies at year-end was approximately 44,000 compared with 35,000 at the previous year-end, an increase of 25 percent. We also hold a 50 percent interest in Integrated Satellite Information Services (ISIS) Ltd., and a 45 percent interest in Canada All-News Radio Limited.

Vern Siemens, Ken Taylor and Stew McQuay examine Pepsi's new 1½ litre packaging.

Bruce Atkinson and Toni Zobell receive the Ken Liddell award on behalf of Cablevision Lethbridge. The award is presented by the Calgary Herald and the Alberta Tourist Board for "excellence in reporting on Alberta tourism."

The new satellite tracking station at Shoe Cove in Newfoundland will be operated by ISIS, Memorial University and Nordco. ▶

AGRA's cable system managers — from left to right, G. Schultz, W. Weckers, W. Wolfe, N. Sherman, R. McPhee and G. Turner.

Total revenues generated by the Communications Group in fiscal 1977 reached a record $4,390,464 and after-tax earnings increased to a record $425,587. This compares with revenues of $3,879,787 and after-tax earnings of $388,361 in the previous year. Fiscal 1977 marks the eighth consecutive year of improved performance over the previous year by our Communications Group — a very impressive record indeed.

During the year several applications to the Canadian Radio-television and Telecommunications Commission (CRTC) were made which resulted in substantial progress by several of our companies. For example, Mainline Cablevision in Kamloops was given permission to bring into its system by microwave the third American television network (ABC). Also Cablevision Lethbridge was given permission to join the Alberta microwave system which will substantially improve signal quality and will enable them, for the first time, to carry the PBS (Public Broadcasting Service) network on our Lethbridge system. In addition, both systems were allowed to bring in a number of distant FM radio stations which will provide an added attraction for our cable subscribers. Furthermore, our cable systems in Estevan, Weyburn, Lethbridge and Powell River were granted rate increases which will help considerably to offset the ever increasing costs of operation.

An addition to AGRA's cable television family of companies was recently undertaken subsequent to our year-end. Agreement was reached in March of 1977 to purchase a controlling interest in Wired City Communications Ltd. which operates a cable TV system with nearly 18,000 subscribers in part of Scarborough (in Toronto). Hearings for approval of this purchase were held by the CRTC in June and final approval was given in October. Wired City is a public company and we purchased a total of 82 percent of the company in October of 1977. The cable system passes a potential of over 30,000 subscribers so that this company should provide substantial additional growth potential over the next few years for our Communications Group.

Integrated Satellite Information Services (ISIS) continued throughout the year its efforts to develop the utilization of Landsat and NOAA imagery in Canada. Considerable help was provided by the Federal Government when they expanded the exclusive ISIS distribution contract of black and white imagery to include all color and digital products from the Landsat satellite. Further assistance was provided when the government also granted full data processing and distribution rights for the new Shoe Cove Satellite Station near St. John's, Newfoundland. The Shoe Cove station began operating in June, 1977, and incorporates many technical innovations of unique Canadian design and manufacture. Exclusive access to the imagery

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Telex 074-2496

AGRA
INDUSTRIES LIMITED

Office of the President:

1201 OLD MILL TOWERS,
39 OLD MILL ROAD,
TORONTO, CANADA M8X 1G6
(416) 231-1946

ENGINEERING GROUP

The Cambrian Group

The Cambrian Engineering Group Limited
CEL Contracting Ltd.
Cambrian Facilities Consultants Limited
Cambrian Processes Limited
Cambrian Project Management Limited
Cambrian Contract Maintenance Limited

119 - 105th Street East,
Saskatoon, Sask. S7N 1Z2
(306) 374-8242

1661 Park Street,
Regina, Sask. S4N 2G2
(306) 525-1345

10554 - 82nd Avenue,
Edmonton, Alta. T6E 2A4
(403) 432-7478

5104 - 82nd Avenue,
Edmonton, Alta. T6E 0E6
(403) 465-0319

5925 - 3rd Street S.E.,
Calgary, Alta. T2H 1K3
(403) 253-7631

112 - 2465 Cawthra Road,
Mississauga, Ont. L5A 3P2
(416) 272-1400

Torchinsky Consulting Group

BBT Geotechnical Consultants Ltd.
Torchinsky Consulting (1976) Ltd.

7708 Wagner Road,
Edmonton, Alta. T6E 5B2
(403) 465-0251

56 Sherwood Cresc.,
Red Deer, Alta. T4N 0A6
(403) 346-5895

6423A Burbank Road S.E.,
Calgary, Alta. T2H 2E1
(403) 252-1106

P.O. Box 610,
Prince Albert, Sask. S6V 5S2
(306) 764-4154

121 - 105th Street East,
Saskatoon, Sask. S7N 1Z2
(306) 374-6121

160 Myrtle Avenue,
Yorkton, Sask. S3N 1R1
(306) 783-8563

1550 Park Street,
Regina, Sask. S4N 2G1
(306) 523-9626

P.O. Box 62,
Swift Current, Sask. S9H 3V5
(306) 773-4882

The Western Caissons Group

Western Caissons Limited
Western Caissons Inc.

6700 Finch Ave. West,
Rexdale, Ont. M9W 5P5
(416) 675-1470

7708 Wagner Road,
Edmonton, Alta. T6E 5B2
(403) 465-0231

416 Monument Place,
Calgary, Alta. T2A 1X3
(403) 272-5531

121 - 105th Street East,
Saskatoon, Sask. S7N 1Z2
(306) 373-3762

515 Dewdney Ave E.,
Regina, Sask. S4N 4E9
(306) 525-1379

961 Jarvis Avenue,
Winnipeg, Man. R2X 0A1
(204) 586-8295

150 Creditstone Road,
Maple (Toronto), Ont. L0J 1E0
(416) 669-1663

1950 Fortin Boulevard,
Chomedey (Laval), Que. H7S 1P3
(514) 667-5024

1800 First National Building,
Detroit, Michigan 48226

P.O. Box 2567,
Hyattsville Maryland 20784
(301) 459-7560

1460 Washington Blvd.,
Suite A-204
Concord, California 94521
(415) 689-5521

GREENLEES PILEDRIVING CO. LTD.
630 Taylor Street,
Vancouver, B.C. V6B 4H3
(604) 681-7142

MEREDITH DRILLING COMPANY INC.
945 South Huron Street,
Denver, Colorado 80223
(303) 722-8926

JENSEN & REYNOLDS CONSTRUCTION CO.
675 East H Street,
Benicia, Ca. 94510
(707) 745-8300

WESTERN FOUNDATION & MARINE CONSTRUCTION CO.
Box 886,
Safat, Kuwait
Phone 835342
Telex 496-2071

MAXUM STRUCTURES LTD.
416 Monument Place,
Calgary, Alta. T2A 1X3
(403) 272-5531

COAST STEEL FABRICATORS LTD.
RIDGEWAY FABRICATORS LTD.
7950 Venture Street,
Lake-City Industrial Park,
Burnaby, B.C. V5A 1V4
(604) 298-6474

BEER PRECAST CONCRETE LIMITED
110 Manville Road,
Scarborough, Ont. M1L 4J4
(416) 759-4151

MOCOAT INDUSTRIES LTD.
P.O. Box 640,
Okotoks, Alta. T0L 1T0
(403) 938-4423

SANDISLE STRUCTURES LIMITED
302 The East Mall,
Toronto, Ont. M9B 6C7
(416) 239-9334

FOODS GROUP

RESEARCH FOODS (1976) LIMITED
77 Champagne Drive,
Downsview, Ont. M3J 2C6
(416) 635-8434

W. J. LAFAVE & SONS LTD.
MAGNANI INC.
950 Rue d'Industrie,
St. Jerome, Que. J7Z 5V9
(514) 866-1777

1591 Matheson Blvd.,
Mississauga, Ont. L4W 1H9
(416) 625-5202

GAINERS LIMITED
80th Avenue & 96th Street,
Edmonton, Alta. T6E 4T4
(403) 439-2011

1221 Vulcan Way,
Richmond, B.C. V6V 1J7
(604) 278-8491

RANCH HAND FOODS
1221 Vulcan Way,
Richmond, B.C. V6V 1J7
(604) 278-8491

BEVERAGES GROUP

BLUE LABEL BEVERAGES (1971) LTD.
POLAR BEVERAGES (1970) LIMITED
STAMPEDE VENDING
1010 - 42nd Ave S.E.,
Calgary, Alta. T2G 1Z4
(403) 287-0723

CONTAIN-A-WAY LTD.
L.B. RECYCLING LTD.
LESWASTE SYSTEMS LTD.
1324 - 44th Avenue N.E.,
Calgary, Alta. T2E 2N8
(403) 277-8591

CHINOOK BEVERAGES LIMITED
2907 - 2nd Avenue South,
Lethbridge, Alta. T1J 0G8
(403) 327-1310

COMMUNICATIONS GROUP

CABLENET LIMITED
1201 Old Mill Towers,
39 Old Mill Road,
Toronto, Ont. M8X 1G6
(416) 231-1946

VALLEY TELEVUE
62 Yale Road East,
Chilliwack, B.C. V2P 2P1
(604) 792-4626

CABLEVISION LETHBRIDGE
728 - 13th Street North,
Lethbridge, Alta. T1H 2T1
(403) 328-1222

CO-AX CABLE TV
1229 - 4th Street,
Estevan, Sask. S4A 0W8
(306) 634-3822

117 - 2nd Street,
Weyburn, Sask. S4H 0T7
(306) 842-4236

POWELL RIVER TELEVISION COMPANY LTD.
4706 Marine Avenue,
Powell River, B.C. V8A 2L4
(604) 485-4295

MAINLINE CABLEVISION OF KAMLOOPS LTD.
180 Briar Avenue,
Kamloops, B.C. V2B 1C1
(604) 376-7204

WIRED CITY COMMUNICATIONS LTD.
3212 Eglinton Avenue East,
Scarborough, Ont. M1J 2H6
(416) 261-7223

GENERAL NEWS
2907 - 2nd Avenue South,
Lethbridge, Alta. T1J 0G8
(403) 327-4220

INTEGRATED SATELLITE INFORMATION SERVICES
P.O. Box 1630,
Prince Albert, Sask. S6V 5T2
(306) 764-3602

CANADA ALL-NEWS RADIO LIMITED
65 Adelaide Street E.,
Toronto, Ont. M5C 1K6
(416) 862-7200

AGRA INDUSTRIES LIMITED
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1977 FOURTEENTH ANNUAL REPORT

FINANCIAL HIGHLIGHTS

	1977	1976
Sales	**$154,077,097**	149,831,095
Net Earnings — After Taxes		
Before Extraordinary Items	**2,139,496**	3,416,666
After Extraordinary Items	**1,633,358**	3,532,528
Net Earnings Per Share		
Before Extraordinary Items	**.91**	1.57
After Extraordinary Items	**.70**	1.62
Cash Flow	**5,212,392**	6,767,819
Cash Flow Per Share	**2.22**	3.10
Equity Per Share	**10.32**	10.18
Average Shares Outstanding	**2,344,840**	2,186,010
Return On Equity	7%	17%

CONTENTS

Annual Meeting

The annual meeting of shareholders will be held at 2:30 p.m. on Tuesday, January 24, 1978 in the Sheraton Cavalier Hotel in Saskatoon, Saskatchewan. If you cannot be present, please vote by proxy.