AGRA Industries Limited Annual Report 1985

AGRA Industries is a diversified Canadian company which operates in three major fields. The Engineering Group is engaged in both consulting and construction work as well as in land development. It also operates an architectural precast concrete plant and a fiberglass reinforced plastics plant. The Community Service Group provides cable television and radio broadcasting services, wholesale news-magazine distribution and insurance brokerage services. It also operates medical diagnostic laboratories and airport duty-free shops. The Foods Group produces specialty ingredients for the snack food and baking industries as well as several branded food lines. A list of AGRA's subsidiary companies and their locations is included on page twenty-three.

Cover

Wayne Craig adjusts the low noise amplifier on one of seven satellite-receive stations which Oakville/Burlington Cablenet uses to provide satellite programming to its 54,000 cable television subscribers.

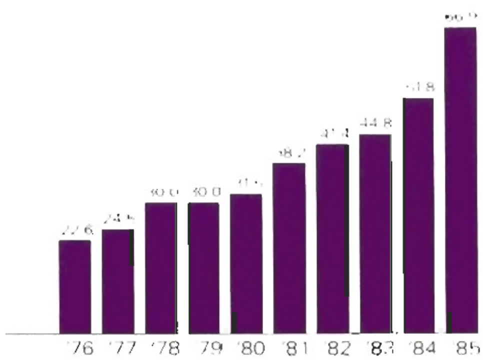
Annual Meeting

The annual meeting of shareholders will be held at 2:30 P.M. on Tuesday, January 14, 1986 in the Kensington Room, The King Edward Hotel, at 37 King Street East in Toronto. If you cannot be present, please vote by proxy.

Financial Highlights

	1985	1984
Sales	**$135,304,061**	140,308,159
Net Earnings		
Before Extraordinary Items	**4,660,750**	2,692,694
After Extraordinary Items	**10,610,450**	7,723,619
Net Earnings Per Share		
Before Extraordinary Items	**.99**	59
After Extraordinary Items	**2.26**	1 68
Fully Diluted Earnings Per Share		
Before Extraordinary Items	**.90**	56
After Extraordinary Items	**1.82**	1 56
Equity Per Share	**13.63**	10 83
Average Shares Outstanding	**4,698,009**	4,587,246
Return on Equity	**18%**	16%

Shareholders' Equity



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Financial Results

Fiscal 1985 ended on July 31st, 1985 and produced excellent results for AGRA, even though consolidated sales declined from $140,308,159 last year to $135,304,061 in the current year. Total earnings after allowing for full income taxes reached a record $10,610,450 or $2.26 per share (based on 4,698,009 shares outstanding). This compares with total earnings last year of $7,723,619 or $1.68 per share (based on 4,587,246 shares outstanding). Last year's earnings included an extraordinary profit of $5,030,925 or $1.09 per share, while the current year's earnings include an extraordinary profit of $5,949,700 or $1.27 per share. The extraordinary item last year resulted primarily from our share of Cybermedix's special gain from the sale of its half-interest in a cable television system in St. Louis. In the current year, the extraordinary gain resulted primarily from the sale of our soft-drink plant in Calgary, reduced somewhat by the cost of discontinuing some of our less attractive operations.

Summary of Group Performances

On a consolidated basis, AGRA's performance for the year showed a substantial improvement over last year. This can best be summarized by the fact that while total sales dropped about 4 percent, consolidated net earnings increased about 37 percent. An even better indication of our operational improvement is that, in spite of a 4 percent drop in total sales, net earnings generated from continuing operations showed an increase of about 73 percent.

The Engineering Group demonstrated slow but steady improvement throughout the year. Total sales climbed considerably ahead of last year and earnings followed, but at a slower pace. Although the overall performance of the Engineering Group was somewhat disappointing compared to what we anticipated, the Group demonstrated a clear turnaround and should continue to show an improved operating performance next year.

The sale of our soft-drink plant in Calgary early in the current year caused a drop in total revenues for the Foods Group to almost half what they were last year. In spite of this precipitous drop, operating results fell only slightly from the previous year. Of course, total earnings for the Foods Group increased substantially over last year because of the large extraordinary gain generated by the sale of our soft-drink plant.

The Community Service Group produced record sales for fiscal 1985, however operating results improved at a slower rate due to increased costs in our all-news radio broadcasting operations. Total earnings were significantly lower than last year because last year's results included a substantial extraordinary gain whereas in the current year there were no such special items.

AGRA's board of directors
(from left to right)

Sitting
A. Golumbia, D.H.C. Beach,
T.A. McLellan, B.B. Torchinsky

Standing
H. Tenenbaum, A.Z. Torchinsky,
H.M. Walker, J.M. Barry,
C. Roles, F.D. McCarthy,
H. Soloninka

Missing
S.J. Hamer, W.F. Wettstein

Acquisitions and Divestitures

Early in the year we completed the sale of our soft-drink operations in Calgary. The decision to sell the plant was made because we were discouraged by its lacklustre operating results and because we were offered an excellent price for the business. Near the middle of the year we also finalized the sale of a 50 percent interest in our cable television system in Chicago. This relieved pressures created by excess construction costs and provided the additional financing necessary to complete the project.

Subsequent to our year-end we agreed to purchase Quan Carruthers King and Quan Consultants Limited. This is a small, well established and highly regarded consulting engineering company which specializes in process designs particularly related to the food and beverage industry. It will therefore fit very well with our Engineering Group. Also, subsequent to year-end, our Allders subsidiary was successful in winning the concession for operating the duty-free shops in Vancouver's International Airport. We plan to enlarge and improve the Vancouver operations as we did in Toronto and we hope to operate them as successfully as we are now doing in Toronto.

Outlook for 1986

AGRA has enjoyed the most profitable year in its history, however we must be careful to recognize that extraordinary gains played a significant role in this success. While we cannot count on such gains to be made on a regular basis, nevertheless the outlook for 1986 is very promising. After several years of recession and uncertainty, the Canadian economy seems clearly headed in a positive direction. AGRA is well positioned to make the most of such an improving economic climate. We enjoy a relatively strong financial position and our operating companies are well equipped with staff and facilities to take on a substantially increased work load. We look forward to the challenge!

Sincerely yours,

B.B. Torchinsky,
President.

Engineering Group

Total sales increased by 19 percent to a record high of $83,899,790 compared with $70,365,458 last year. With the increased sales volume we were able to turn operating earnings around from a loss of $630,510 last year to a profit of $1,002,715 this year, after allowing for full taxes. Unfortunately, the process of pruning several operations to improve efficiencies resulted in an extraordinary loss of $791,240, so that final results for the Engineering Group came in at a more modest profit of $211,475.

The consulting engineering division operated generally on a profitable basis, however none of the major jobs pursued during the past year or so materialized. As a result the division, with one or two exceptions, did not swing into high gear but did manage to keep busy with a large number of smaller jobs throughout the year. One exception was Sergent Hauskins and Beckwith, our geotechnical company headquartered in Phoenix. This company had an excellent year as did Moore and Taber, the geotechnical company in California acquired in the previous year.

Our contracting division got off to a slow start at the beginning of the year, but activity increased as the year progressed, and by the last quarter this division was very busy. Once again our Beer Precast Concrete subsidiary with its contracting arm, Beer Con Industries, were most successful in their operations for the year. Other companies in the division operated with varying degrees of success, but the one company which was unable to get back into a profitable operation was Coast Steel Fabricators in British Columbia. B.C. has an excess of structural steel fabricating capacity combined with a falling demand for these services because of the industrial slowdown in the province -- particularly in the mining and logging industries. We consequently decided late in the year to mothball the structural steel fabricating portion of this business and to concentrate only on the plate fabricating portion which is less competitive.

During the year Ellesmere Developments completed their Britannia golf course development in the Cayman Islands and began construction of their resort hotel there. It will be operated as a Hyatt Regency hotel when it is completed by the end of 1986. Work was also begun on the first phase of what will eventually become a major condominium resort development surrounding the golf course.

Subsequent to our year end we agreed to purchase Quan Carruthers King and Quan Consultants Limited, a well established consulting engineering company in Toronto which specializes in industrial projects, particularly in the food and beverage processing industry. This company is a natural fit with our own Cambrian Engineering Group and should give Cambrian a synergistic boost in eastern Canada by merging with it.

Our Engineering Group made considerable progress in 1985, overcoming the general malaise which afflicted these operations in the past few years. While there remains considerable room for improvement, it is clear that we are headed in the right direction. We expect 1986 will bring increased volume of work and more realistic returns from the efforts of our Engineering Group.

Cambrian Engineering is providing engineering design, inspection and construction management for Saskatchewan Power Corporation's gas distribution program in the Saskatoon and North Battleford operating regions. To date, Cambrian has been involved with installations for over 2000 customers and 3000 km. of pipeline.

	1985	1984
Consolidated Revenues	**$83,899,790**	70,365,458
Net Earnings:		
Before Extraordinary Items	**1,002,715**	(630,510)
After Extraordinary Items	**211,475**	(630,510)

Beer Precast supplied and installed architectural precast concrete wall panels with a sand blasted finish for the American Trucking Association office building in Alexandria, Virginia. Beer was awarded an "Excellence in Craftmanship Award" from the Virginia chapter of the American Institute of Architects for their efforts.

Ellesmere Developments officially opened their Britannia Resort golf club in the Cayman Islands on February 18th, 1985. Cutting the ribbon are the co-hosts for the grand opening, (from the left) the Honorable Peter Lloyd, Governor of the island, Hal Walker, president of Ellesmere (Cayman) Ltd., Jack Nicklaus, designer of the golf course and Wieland Wettstein, vice-president of Ellesmere Developments Ltd.

Consolidated sales reached $59,079,665 compared with $47,540,766 last year. The sales figures include our share (73%) of Cybermedix's total sales, namely $37,746,500 for the current year and $32,230,113 last year. The Cybermedix figures are not included in AGRA's consolidated sales figures because our interest in Cybermedix is accounted for on an equity basis. Net earnings from operations were $2,342,371 after taxes compared with $2,002,335 last year. There were no extraordinary items in the current year, but last year there was an extraordinary gain of $5,030,925 which brought total earnings up to $7,033,260 for the year. The extraordinary gain arose from the sale of Cybermedix's interest in a cable television system in the suburbs of St. Louis.

The Community Service Group contains four divisions—the medical diagnostic laboratory division, the communications division, the insurance brokerage division and the duty-free sales division. Cybermedix, the medical diagnostic laboratory division, operates 66 laboratory locations in various cities throughout Ontario and Quebec, a major reference laboratory in Buffalo and 3 general laboratories in Rochester, Syracuse and Buffalo. This division once again exceeded budget expectations in fiscal 1985.

The communications division includes CKO which operates a news and information radio broadcasting network in eight major cities across Canada, General News, a magazine wholesale distributor in southern Alberta, and Cablenet which operates cable systems in nine communities across Canada and in twelve suburban communities of Chicago. During the year a 50 percent interest in the Chicago cable system was sold to Tele-Communications Inc. of Denver to help us carry the high cost of its construction and start-up expenses. General News performed well for the year and CKO continued to provide disappointing results.

The insurance brokerage division was started about two years ago by purchasing a small company called Canasco-Bonham. AGRA owns a 49 percent interest in the company, which provides brokerage services in the general insurance field. Since starting, it has expanded by acquiring two small companies with which it has amalgamated, as well as by natural growth developed from building up its client list. Canasco-Bonham has exceeded budget every year since it began and we are very pleased with its operations.

The duty free sales division was also created about two years ago when we formed Allders International (Canada) Limited in which we hold a 51 percent interest. At that time Allders won the concession to operate all the duty free shops in Toronto's Pearson International Airport and its operations proved to be most satisfactory after it renovated and expanded both the physical size of the shop facilities there as well as the selection and quality of merchandise offered for sale. Early in the new year we won the concession to operate all the duty-free shops in Vancouver's International Airport and we took over these shops in September. We will renovate and expand the Vancouver shop facilities in a manner similar to what was done so successfully in Toronto and we look forward to excellent results from both the Toronto and Vancouver duty-free shop operations in the new year.

Allders International (Canada) operates all the duty-free shops in Toronto's Pearson International Airport and commenced operating all the duty-free shops in the Vancouver International Airport on September 10th, 1985.

	1985	1984
Consolidated Revenues	**$59,079,665**	47,540,766
Net Earnings		
Before Extraordinary Items	**2,342,371**	2,002,335
After Extraordinary Items	**2,342,371**	2,033,260

Lab technician Trinidad Taylor screens a swab specimen using a high powered compound microscope at Cybermedix's central laboratory in Toronto.

Master control producer Phil Andrews is in charge of CKO's network radio programming and its distribution across Canada through CKO's satellite and microwave system.

Early in the year we sold our soft drink plant in Calgary. As a result, consolidated revenues of the Foods Group dropped substantially from $54,632,048 last year to $30,071,106 in the current year. In spite of this major 45 percent drop in total sales, net after tax earnings from operations fell less than 1 percent, from $1,320,869 last year to $1,315,664 in the current year. Due to a substantial extraordinary gain realized from the sale of our soft drink plant, total net earnings for the year reached a record high of $8,056,604 for the current year.

With the sale of our soft drink operations, our Foods Group management concentrated their efforts during the year to reorganize operations in order to place greater emphasis on the development of branded specialty food products for the national retail market. This was done in addition to ongoing efforts on behalf of the important industrial food ingredient manufacturing divisions of Research Foods in Toronto and W.J. Lafave in Montreal. Internal product development and acquisitions have given us a line of outstanding retail products which are produced and marketed through our newly created Maple Hill Foods division. These include the following excellent products

Sippin Soups®	a line of instant soup mix products that have been in national distribution for over 25 years
Coffee Delight®	a coffee whitener with the taste of real cream
Saltex®	a sodium free salt substitute
Alpen Gold®	a premium line of chocolate drinks
Pop N Snack®	a line of home popcorn toppings in eight different flavours

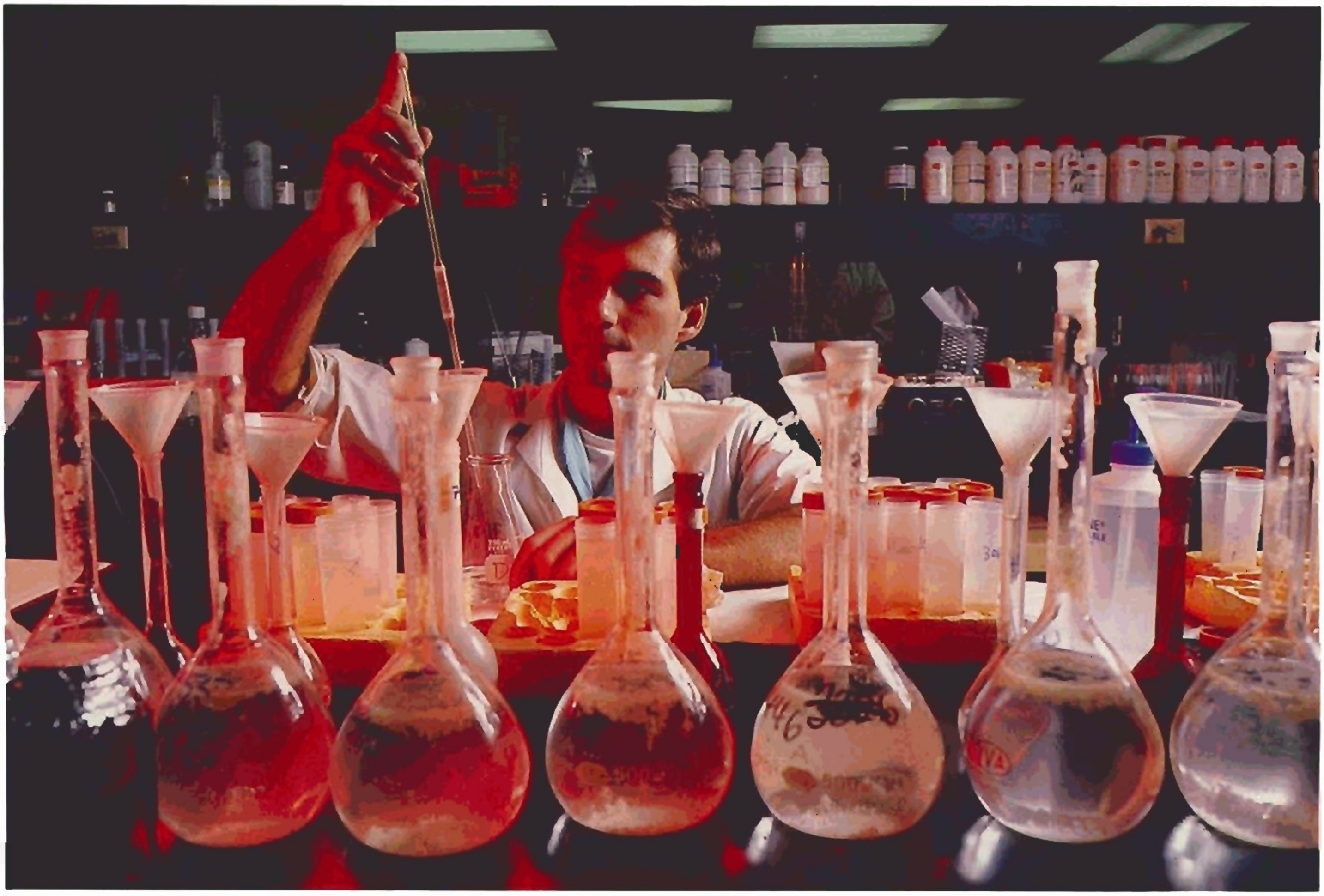
A programme of national advertising for some of the above products over the coming years should establish strong brand recognition. This in turn should help Maple Hill Foods to become a major force in our Foods Group.

Both our Research Foods and our W.J. Lafave divisions enjoyed a relatively good year in fiscal 1985. Research Foods produces bulk ingredients for the snack and convenience foods industry and W.J. Lafave is a major ingredient supplier to the baking industry. Lafave also manufactures a variety of specialty Italian foods through its wholly owned subsidiary, Magnani, Inc. In spite of a continuing competitive environment and climbing commodity costs, these companies were able to achieve reasonable progress during the year. Since year end, commodity costs have started to come down again. As costs fall in line, prospects of increasing both domestic and export markets should steadily improve.

Our reorganized Foods Group anticipates an exciting year as new concepts are developed and brought to market with increased emphasis on retail products and national brands. The stability of our Research Foods and W.J. Lafave & Sons subsidiaries, combined with the potential of our new Maple Hill Foods division, should lead to a greater growth oriented organization than was previously possible. We consequently look forward to significant improvement in the new year.

Research Foods produces bulk cheese powders for the snack food industry, bulk soup mixes for vending machine sales, and several product lines for retail distribution through its Maple Hill Foods division.

	1985	1984
Consolidated Revenues	**$30,071,106**	$4,632,048
Net Earnings:		
Before Extraordinary Items	**1,315,664**	1,320,869
After Extraordinary Items	**8,056,604**	1,320,869



W.J. Lafave & Sons produces special blends of cake and donut mixes in its Montreal plant which are distributed in bulk to the baking industry across Canada.

Bill Swanson conducts viscosity tests to complement taste and mouth-feel studies in Research Foods' Toronto laboratory.

Ten Year Review

		1985	1984	1983
Earnings Statistics	Revenues	**$135,304,061**	140,308,159	132,334,965
	Depreciation and Amortization	**3,106,529**	4,411,798	4,293,092
	Net Earnings	**10,610,450**	7,723,619	4,509,237
	Cash Flow	**10,777,216**	4,443,726	7,274,952
	Dividends Paid	**1,031,638**	1,000,816	460,836
Balance Sheet Statistics	Current Assets	**58,659,573**	51,884,598	46,073,590
	Current Liabilities	**33,822,116**	33,228,699	23,649,071
	Working Capital	**24,837,457**	18,655,899	22,424,519
	Fixed Assets—Net	**23,557,010**	40,836,120	40,296,745
	Long-Term Debt	**19,550,029**	34,933,349	36,580,651
	Shareholders' Equity	**66,943,530**	51,817,158	44,803,950
Common Share Statistics*	Earnings per Share	**2.26**	1.68	.98
	Cash Flow per Share	**2.29**	.97	1.58
	Dividends per Share (A/B)	**.20/.24**	.20/.24	.10
	Equity per Share	**13.63**	10.83	9.49
	Return on Equity (average)	**18%**	16%	10%
Other Statistics*	Average Shares Outstanding	**4,698,009**	4,587,246	4,599,915
	Number of Shareholders	**1,200**	1,200	1,100
	Total Shares Traded	**1,349,900**	938,537	884,449
	Price (high/low)	**9.375/4.25**	7.00/4.00	7.00/4.50

*During 1983 the outstanding shares were split on a two for one basis. Statistics for prior years have been restated to provide comparability.

1982	1981	1980	1979	1978	1977	1976
151,922,836	160,007,590	139,217,043	105,629,644	181,730,078	146,445,214	149,831,095
3,838,535	5,666,515	3,847,289	3,184,967	3,560,953	2,809,913	2,242,105
4,143,909	6,598,687	1,446,784	959,361	6,320,883	2,139,496	3,532,528
8,043,656	10,732,960	3,713,649	1,880,919	9,692,023	5,841,809	6,767,819
353,875	—	—	924,878	835,762	761,209	685,687
46,705,258	52,873,652	49,965,343	42,980,718	37,192,909	38,157,933	30,603,645
24,900,967	33,924,060	32,165,852	29,217,562	26,871,633	28,592,991	23,536,967
21,804,291	18,949,592	17,799,491	13,763,156	10,321,276	9,564,942	7,066,678
40,696,028	27,551,329	30,314,630	20,444,912	26,321,703	25,572,113	22,610,704
38,739,340	28,061,826	36,940,363	26,261,826	21,627,655	19,220,781	15,167,565
41,379,471	38,198,000	31,492,232	30,028,736	30,019,197	24,465,701	22,610,191
.88	1.39	.31	.20	1.34	.46	.81
1.70	2.26	.79	.40	2.05	1.25	1.55
.075	—	—	.195	.18	.17	.16
8.96	8.01	6.65	6.34	6.33	5.16	5.09
10%	19%	5%	3%	23%	9%	17%
4,746,250	4,753,798	4,740,004	4,743,104	4,740,278	4,689,680	4,372,020
1,300	1,500	1,900	1,900	1,950	1,900	1,900
542,538	1,383,206	815,426	1,023,302	681,458	453,396	728,268
4.625/3.25	5.187/2.563	3.125/2.30	3.688/2.938	3.50/2.375	3.813/2.563	4.313/2.25

Revenues and Earnings

Consolidated sales decreased from $140,308,159 to $135,304,061 in the current year. However, last year's sales included $27,304,165 produced by our Blue Label soft-drink plant in Calgary which was sold at the beginning of the year. Sales of the remaining companies increased a total of $22,300,067 or 19.7% of which increases of $13,534,332, $6,022,512, and $2,743,223 were attained by the Engineering, Community Service and Foods Groups respectively.

Net earnings for the year increased to $10,610,450 ($2.26 per share) from $7,723,619 ($1.68 per share) last year. This year's results include extraordinary earnings of $5,949,700 ($1.27 per share) versus $5,030,925 ($1.09 per share) last year. Regular earnings increased 73% to $4,660,750 (99 cents per share) from last year's $2,692,694 (59 cents per share). The increase in regular earnings was achieved mostly as a result of improved earnings in the Engineering Group and a decrease in interest charges.

Financial Position

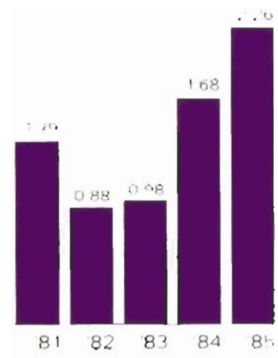
The financial position of the Company improved dramatically primarily due to the sale of our soft-drink plant. We now have the strongest balance sheet in our history.

Working capital increased from $18,655,899 to $24,837,457. Long-term debt was reduced from $34,933,349 to $19,550,029. Our debt to equity ratio improved from 1.37:1 down to 0.80:1.

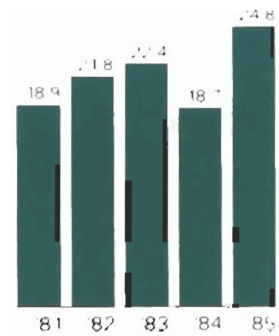
Shareholders' equity reached $66,943,530 or $13.63 per share, and return on equity after full taxes was 18%. This strong balance sheet places us in an excellent position for future opportunities.

T.A. McLellan
Executive
Vice President

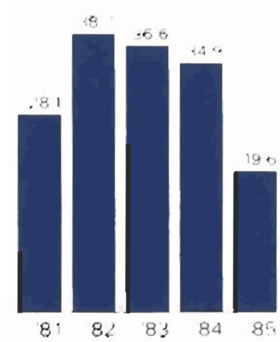
Earnings per Share
Dollars



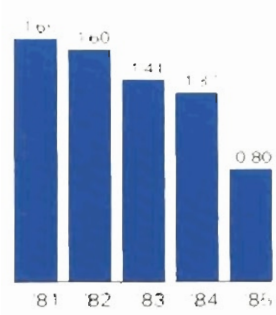
Working Capital
Millions



Long-Term Debt
Millions



Debt to Equity Ratio



Auditors' Report

To the Shareholders
We have examined the consolidated balance sheet of AGRA Industries Limited as at July 31, 1985 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at July 31, 1985 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, except for the change in the method of accounting for foreign currency translation as explained in Note 2, on a basis consistent with that of the preceding year.

Auditors

Deloitte Haskins + Sells

Saskatoon, Canada
September 30, 1985.

Consolidated Balance Sheet

July 31, 1985

	1985	1984
Assets		
Current		
Cash and short-term investments	**$ 5,578,901**	1,320,000
Accounts receivable	**25,498,262**	24,147,153
Inventory and contracts in progress	**13,255,703**	15,584,501
Loans to non-consolidated entities	**13,066,947**	9,690,000
Other	**1,259,760**	1,142,944
	58,659,573	51,884,598
Investments		
Non-consolidated entities	**28,782,888**	21,278,968
Other—at cost	**5,583,703**	2,426,550
	34,366,591	23,705,518
Fixed		
Land	**2,829,529**	4,094,031
Buildings	**9,903,351**	18,414,503
Equipment	**31,821,938**	43,220,045
	44,554,818	65,728,579
Less accumulated depreciation	**20,997,808**	24,892,459
	23,557,010	40,836,120
Other		
Excess cost of shares of subsidiaries acquired	**4,558,085**	6,381,754
	$121,141,259	122,807,990

On Behalf of the Board

B. B. Torchinsky
Director

T.A. McLellan
Director

	1985	1984
Liabilities		
Current		
Bank indebtedness (Note 4)	**$ 6,335,680**	9,051,071
Accounts payable	**18,211,409**	16,603,585
Income taxes payable	**2,260,682**	—
Current portion of long-term debt (Note 6)	**5,988,319**	5,880,558
	32,796,090	31,535,214
Deferred income taxes	**1,026,026**	1,693,485
	33,822,116	33,228,699
Long-term debt (Note 6)	**19,550,029**	34,933,349
Deferred income taxes	**—**	2,590,183
	53,372,145	70,752,231
Minority interest	**825,584**	238,601
Shareholders' Equity		
Share capital (Note 8)		
Authorized		
Class A voting convertible shares, without nominal or par value		
Class B non-voting shares, without nominal or par value		
Issued and outstanding		
2,434,913 Class A shares	**5,429,545**	5,257,184
2,476,743 Class B shares	**5,687,196**	5,347,657
	11,116,741	10,604,841
Retained earnings	**51,838,502**	42,259,690
	62,955,243	52,864,531
Adjustment from translation of foreign currency	**4,347,871**	—
Shares held by affiliated company	**(359,584)**	(1,047,373)
Total Shareholders' Equity	**66,943,530**	51,817,158
	$121,141,259	122,807,990

Consolidated Statement of Earnings

Year Ended July 31, 1985

	1985	1984
Revenue (Note 16)	**$135,304,061**	140,308,159
Expenses		
Cost of sales and services, selling, general and administrative	**121,465,328**	130,057,975
Depreciation and amortization	**3,106,529**	4,411,798
Interest on long-term debt	**3,041,191**	4,670,509
Other interest	**487,760**	893,366
	128,100,808	140,033,648
Earnings before the following	**7,203,253**	274,511
Income taxes (recovery) (Note 13)		
Current	**2,847,539**	125,992
Deferred	**246,666**	(420,343)
	3,094,205	(294,351)
	4,109,048	568,862
Minority interest	**(586,983)**	(68,102)
Earnings of non-consolidated entities	**1,138,685**	2,191,934
Earnings before extraordinary items	**4,660,750**	2,692,694
Extraordinary items (Note 9)	**5,949,700**	5,030,925
Net earnings	**$10,610,450**	7,723,619
Earnings per share (Note 14)		
Before extraordinary items	**$ .99**	.59
After extraordinary items	**$2.26**	1.68

Consolidated Statement of Retained Earnings

Year Ended July 31, 1985

	1985	1984
Balance, beginning of year	**$42,259,690**	35,536,887
Add net earnings	**10,610,450**	7,723,619
	52,870,140	43,260,506
Less dividends paid	**1,031,638**	1,000,816
Balance, end of year	**$51,838,502**	42,259,690

Consolidated Statement of Changes in Financial Position

Year Ended July 31, 1985

	1985	1984
Source of Working Capital		
Operations		
Earnings before extraordinary items	**$ 4,660,750**	2,692,694
Items not affecting working capital	**3,602,907**	1,751,032
	8,263,657	4,443,726
Proceeds from		
Investments	**300,715**	2,264,784
Disposal of fixed assets	**744,597**	539,863
Long-term debt	**3,424,976**	2,233,420
Issue of share capital	**511,900**	290,405
Extraordinary items (net)	**7,009,231**	—
Shares held by minority interest	—	170,499
	20,255,076	9,942,697
Use of Working Capital		
Investments	**3,957,816**	1,312,757
Purchase of fixed assets	**3,798,495**	3,652,341
Retirement of long-term debt	**5,953,028**	4,601,630
Acquisition of subsidiary	—	2,944,867
Payment of dividends	**1,031,638**	1,000,816
	14,740,977	13,512,411
Increase (decrease) in working capital, excluding deferred income taxes	**5,514,099**	(3,569,714)
Working capital, beginning of year, excluding deferred income taxes	**20,349,384**	23,919,098
Working capital, end of year, excluding deferred income taxes	**25,863,483**	20,349,384
Deferred income taxes	**1,026,026**	1,693,485
Working capital, end of year	**$24,837,457**	18,655,899
Represented by		
Current assets	**$58,659,573**	51,884,598
Current liabilities, excluding deferred income taxes	**32,796,090**	31,535,214
Working capital, excluding deferred income taxes	**25,863,483**	20,349,384
Deferred income taxes	**1,026,026**	1,693,485
	$24,837,457	18,655,899

July 31, 1985

1. Summary of Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of all companies in which the Company holds a controlling interest.

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

Inventory and Contracts in Progress
Inventories used in determining cost of sales are valued at the lower of cost and net realizable value, using the first in, first out method. Engineering and construction contracts in progress are recorded at estimated realizable value on the percentage of completion basis.

Fixed Assets
Land, buildings and equipment (including equipment under capital lease) are stated at cost. Depreciation of buildings and equipment has been recorded in the accounts on a straight-line basis at rates providing for the amortization of cost of the buildings and equipment over their estimated useful life.

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 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 Income Taxes
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. In addition, the Company records the estimated future tax benefit from operating losses, when in the opinion of management, the realization of such benefits is virtually certain.

Foreign Currency Translation
Transactions and balances in foreign currencies and the accounts of the Company's self-sustaining United States operations are translated into Canadian dollars using the current-rate method in which assets and liabilities are translated at the year-end exchange rate and revenues and expenses are translated at average exchange rates. Gains and losses arising from the translation of the financial statements of the foreign operations are deferred in an "Adjustment from translation of foreign currency" account in shareholders' equity.

2. Accounting Policy Change— Translation of Foreign Currencies
On August 1, 1984 the Company commenced accounting for the translation of foreign currency transactions and accounts of foreign subsidiaries using the current rate method. In previous years the Company used the temporal method. This change reduced 1985 net earnings by $76,800.

3. Disposals
During the year, Blue Label Beverages (1971) Ltd., a wholly-owned subsidiary, was sold for $10,500,000 cash and notes.

4. Bank Indebtedness

	1985	1984
Secured bank loans	$5,703,613	8,381,407
Cheques issued and uncashed	632,067	669,664
	$6,335,680	9,051,071

The bank loans are secured by general assignments of accounts receivable, inventories and fixed and floating charge debentures on certain fixed assets.

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 and are subordinated to the senior indebtedness of the Company.

The debentures are convertible until March 15, 1992 on the basis of 76.923 Class A shares and 76.923 Class B shares per $1,000 principal amount of debentures, equivalent to a conversion price of $6.50 per Class A share and $6.50 per Class B 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 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, 1985 the Company redeemed $86,000 of these debentures to complete its obligation for the year.

6. Long-Term Debt

	1985	1984
Mortgages, chattel mortgages and obligations under capital lease with interest rates averaging 12.6% (maturity dates to 1997)	$4,115,107	4,340,117
Notes, agreements and loans payable with interest rates averaging 11.0% secured by certain assets (maturity dates to 1994)	19,834,241	34,726,790
6½% Convertible Subordinated Debentures (Note 5)	1,589,000	1,747,000
	25,538,348	40,813,907
Less current portion	5,988,319	5,880,558
	$19,550,029	34,933,349

Principal payments for the five succeeding years are: $5,988,319; $3,583,739; $3,395,232; $3,307,622 and $2,246,017.

7. Dividend Restrictions

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

8. Share Capital

Changes in outstanding shares during the year

	Class A	Class B
Converted from debentures	5,532	5,532
Conversions	(410)	410
Issued for company acquired	—	13,000
Issued for cash	45,500	55,920
	50,622	74,862

At July 31, 1985 there were employee stock options outstanding in respect of 17,925 Class A shares and 82,695 Class B shares exercisable at a price not less than 90% of the market price at the time the options were granted. These options expire at various dates between 1986 and 1989.

During the period January 1, 1988 to March 31, 1988 the unitholders of the Cayman Hotel & Golf Club Partnership have the right to tender part or all of their 280 limited partnership units on a one-time basis to the Company in exchange, and at the option of the Company, for either 5,000 Class B shares of the Company or U.S. $50,000 per unit.

9. Extraordinary Items

	1985	1984
Gain on assets sold net of income tax of $1,231,192 (1984, $123,692)		
Consolidated entities	$7,091,065	139,607
Non-consolidated entities	—	4,891,318
Loss on discontinued operations net of income tax recovery of $1,433,212	(1,141,365)	—
	$5,949,700	5,030,925

10. Lease Commitments

Minimum annual payments under long-term operating leases, the longest of which will expire in 1994, for the five succeeding years are: $5,712,903; $5,773,736; $5,859,304; $6,063,202 and $6,222,411 totalling $29,631,556. These commitments arise primarily from a concession agreement with Transport Canada.

11. Contingent Liabilities

The Company has guaranteed certain indebtedness of related companies in the amount of $13,840,000 and has guaranteed the completion in 1986 of a hotel project by an affiliated company and the cash flow of the project for the first five years of operation.

12. 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.

13. Income Taxes

The average statutory tax rate for the Company and its subsidiaries is approximately 49%. However, the provision for tax is affected by items which are non-taxable or non-deductible for income tax purposes and by items such as the manufacturing and processing profits deduction, investment tax credits and the 3% inventory allowance.

14. Fully Diluted Earnings per Share

	1985	1984
Before extraordinary items	$ .90	.56
After extraordinary items	1.82	1.56

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

15. Related Party Transactions

During the year the Company earned fees and interest income of $2,520,238 (1984—$1,290,374) from non-consolidated entities.

16. Segmented Information (in thousands of dollars)

	Engineering				Food and Beverage		Community Service		Consolidated Total	
	1985	1985	1984	1984	1985	1984	1985	1984	1985	1984
	Domestic	Foreign	Domestic	Foreign						
Revenue	$59,513	24,387	53,816	16,549	30,071	54,632	21,333	15,311	135,304	140,308
Earnings (losses)										
Before the following	819	654	(1,110)	262	1,316	1,321	1,320	96	4,109	569
Minority interest	—	—	—	—	—	—	(587)	(68)	(587)	(68)
Of non-consolidated entities	183	(653)	(70)	287	—	—	1,609	1,975	1,139	2,192
Before extraordinary items	1,002	1	(1,180)	549	1,316	1,321	2,342	2,003	4,661	2,693
Extraordinary items	(444)	(347)	—	—	6,740	—	—	5,031	5,949	5,031
Net earnings (losses)	$ 558	(346)	(1,180)	549	8,056	1,321	2,342	7,034	10,610	7,724
Assets	$50,158	17,137	44,383	10,909	17,430	42,911	36,416	24,605	121,141	122,808
Depreciation and Amortization	$ 1,625	759	1,830	674	552	1,761	171	147	3,107	4,412
Capital Expenditures	$ 782	1,241	1,369	634	1,525	1,103	250	546	3,798	3,652

Engineering Group

2200 Argentia Road
Mississauga, Ontario
L5N 2K7

BBT Geotechnical Consultants Ltd.
221 Jessop Avenue
Saskatoon, Saskatchewan
S7N 1Y3

Also Located In:
Edmonton, Alberta
Calgary, Alberta
Lloydminster, Saskatchewan
Regina, Saskatchewan
Prince Albert, Saskatchewan
Bonnyville, Alberta

Sergent, Hauskins & Beckwith Geotechnical Engineers, Inc.
3940 West Clarendon
Phoenix, Arizona 85019

Also Located In:
Albuquerque, New Mexico
Sante Fe, New Mexico
Salt Lake City, Utah
El Paso, Texas

Moore & Taber
4530 East La Palma Avenue
Anaheim, California 92807

Also Located In:
Bakersfield, California

Torchinsky Consulting (1976) Ltd.
210-6420-6A Street S.E.
Calgary, Alberta T2H 2B7

121-105th Street East
Saskatoon, Saskatchewan
S7N 1Z2

Also Located In:
Edmonton, Alberta
Lloydminster, Alberta
Prince Albert, Saskatchewan
Yorkton, Saskatchewan
Swift Current, Saskatchewan
Lethbridge, Alberta

The Cambrian Engineering Group Limited
2200 Argentia Road
Mississauga, Ontario
L5N 2K7

Also Located In:
Saskatoon, Saskatchewan
Calgary, Alberta

Camrac Facilities Consultants Limited
10554-82nd Avenue
Edmonton, Alberta T6E 2A4

Canadian International Power Services Inc.
2200 Argentia Road
Mississauga, Ontario
L5N 2K7

ASTL Aquatic Systems Technology Limited
9606A-60th Avenue
Edmonton, Alberta T6E 0C1

Western Caissons Limited
7708 Wagner Road
Edmonton, Alberta T6E 5B2

Also Located In:
Calgary, Alberta
Saskatoon, Saskatchewan
Regina, Saskatchewan
Vancouver, British Columbia

Meredith Drilling Company Inc.
3219 West Hampden Avenue
Englewood, Colorado 80110

Also Located In
Phoenix, Arizona

Frontier Foundations Inc.
1526 South 700 West
Salt Lake City, Utah 84104

Also Located In:
Ft. Worth, Texas
Denver, Colorado

National Rathole Service Ltd.
1807-8th Street
Nisku, Alberta T0C 2G0

Jensen & Reynolds Construction Co. (50%)
1105-13th Street
Everett, Washington 98206

DGE Construction & Drilling Ltd.
416 Monument Place S.E.
Calgary, Alberta T2A 1X3

Beck Construction Ltd.
416 Monument Place S.E.
Calgary, Alberta T2A 1X3

Also Located In:
Denver, Colorado

Coast Steel Fabricators Ltd.
1835 Kingsway Avenue
Port Coquitlam,
British Columbia V3C 1S9

Beer Precast Concrete Limited
Beer-Con Industries Limited
110 Manville Road
Scarborough, Ontario
M1L 4J4

Mocoat Industries Ltd.
P.O. Box 640
Okotoks, Alberta T0L 1T0

Ellesmere Developments Ltd. (80%)
Epicon Properties Inc. (36%)
#300, 630 - 4th Avenue S.W.
Calgary, Alberta T2P 0K2

Executive Trust Company (21%)
Ste. 7060
One First Canadian Place
Toronto, Ontario M5X 1B1

Community Service Group

Cablenet Limited (73%)
1200 Sheppard Avenue East
Willowdale, Ontario M2K 2S5

Also Located In:
Chilliwack, British Columbia
Powell River,
British Columbia
Courtenay, British Columbia
Lethbridge, Alberta
Estevan, Saskatchewan
Weyburn, Saskatchewan
Oakville, Ontario
Burlington, Ontario
Kingston, Ontario
Kamloops, British Columbia (60%)

Cablenet Associates (37%)
1201 Feehanville Drive
Mt. Prospect, Illinois 60056

General News
2907—2nd Avenue S.
Lethbridge, Alberta T1J 0G8

CKO Incorporated (69%)
30 Carlton Street
Toronto, Ontario M5B 2L9

Also Located In:
Vancouver, British Columbia
Edmonton, Alberta
Calgary, Alberta
Ottawa, Ontario
London, Ontario
Montreal, Quebec
Halifax, Nova Scotia

Cybermedix Limited (73%)
1200 Sheppard Avenue East
Willowdale, Ontario M2K 2S5

Canasco-Bonham Insurance Brokers (1982) Ltd. (49%)
2831 Kingston Road
Scarborough, Ontario
M1M 3S3

Allders International (Canada) Limited (51%)
Pearson International Airport
Terminal 1
Toronto AMF, Ontario
L5P 1B1

Also Located In:
Vancouver International Airport
Vancouver, British Columbia

Food & Beverage Group

Research Foods Limited
Canadian Professional Laboratories (Canpro)
Maple Hill Foods
77 Champagne Drive
Downsview, Ontario
M3J 2C6

W.J. Lafave & Sons Ltd.
950 rue d'Industrie
St. Jerome, Quebec J7Z 5V9

Also Located In:
Mississauga, Ontario

Magnani Inc.
6550 Bombardier Street
St. Leonard (Montreal),
Quebec H1P 1E1

Companies are wholly-owned subsidiaries of AGRA except where AGRA's percentage interest is indicated in brackets

Board of Directors

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D.H.C. Beach
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A. Golumbia
Vancouver

S.J. Hamer
Vancouver

F.D. McCarthy
Edmonton

T.A. McLellan
Saskatoon

C. Roles
Saskatoon

H. Soloninka
Toronto

H. Tenenbaum
Toronto

A.Z. Torchinsky
Vancouver

B.B. Torchinsky
Toronto

H.M. Walker
Calgary

W.F. Wettstein
Calgary

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Engineering Group
(Construction)

H. Soloninka
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Engineering Group
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D.G. Heath
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Engineering Group
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S.M. Stewart
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Community Service Group

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Special Investments

R.G. Dittmer
Vice-President, Finance
and Treasurer

A.C. Rankin
Director of
Corporate Marketing

O.P. Ritter
Corporate Counsel

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(416) 858-8000
Telex 06-218797

Company Auditors
Deloitte Haskins
& Sells
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