AGRA Industries Limited
Annual Report 1986

AGRA Industries is a diversified Canadian company involved in three broad business areas of endeavor, primarily in Canada and the United States, but also in other parts of the world. The Engineering Group is engaged in professional engineering and specialized construction work as well as in land development. It also operates an architectural precast concrete plant, a fibreglass reinforced plastics plant and a plate steel fabricating plant. The Community Service Group provides cable television and radio broadcasting services, wholesale newsmagazine distribution and insurance brokerage services. It also operates medical diagnostic laboratories and airport duty-free shops. The Foods Group provides specialty ingredients for the snack food and baking industries and manufactures several branded food lines. AGRA is a public company whose shares are traded on the Toronto and Montreal Stock Exchanges. A list of AGRA's subsidiary companies and their locations is shown on the inside back cover of this report.

Cover

Some of the Britannia condominiums are situated on a wide canal leading directly into Grand Cayman's North Sound and *the Caribbean.*

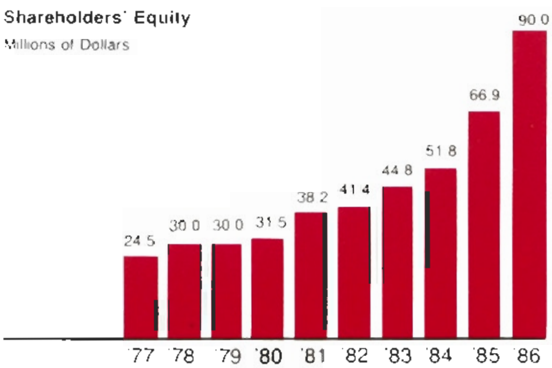
Annual Meeting

The annual meeting of shareholders will be held at 2:30 P.M. on Tuesday, January 20, 1987 in the Venice Salon, the Ramada Renaissance Hotel, at 405 Twentieth Street East, Saskatoon. If you cannot be present, please vote by proxy.

Financial Highlights

	1986	1985
Sales	**$171,499,342**	135,304,061
Net earnings:		
Before U.S. cable operation and extraordinary items	**6,340,075**	4,660,750
U.S. cable operation	**(3,110,400)**	—
From operations	**3,229,675**	4,660,750
Extraordinary items	**(909,920)**	5,949,700
Final net earnings	**2,319,755**	10,610,450
Net earnings per share:		
Before U.S. cable operation and extraordinary items	**1.15**	.99
U.S. cable operation	**(.56)**	—
From operations	**.59**	.99
Extraordinary items	**(.17)**	1.27
Final net earnings per share	**.42**	2.26
Fully diluted earnings per share:		
Before extraordinary items	**.59**	.90
After extraordinary items	**.42**	1.82
Equity per share	**13.65**	13.63
Average shares outstanding	**5,498,867**	4,698,009
Return on equity	**3%**	18%

Shareholders' Equity
Millions of Dollars



Contents

Condominium units are now being developed by Ellesmere Developments adjacent to our golf course in Grand Cayman's Britannia Resort complex. Rental of the units will be administered by our Hyatt Regency hotel which is also nearing completion in the same Britannia Resort complex.

The Hyatt Regency hotel at Britannia Resort complex presently under construction in Grand Cayman will consist of seven separate buildings surrounding lush tropical gardens and a luxurious swimming pool.

Report to the Shareholders

Financial Results
Consolidated sales for fiscal 1986 (ended July 31, 1986) reached $171,499,342 compared with $135,304,061 last year. After allowing for full taxes, but before our U.S. cable television operation and before extraordinary items, consolidated net earnings came in at $6,340,075 or $1.15 per share (based on an average of 5,498,867 shares outstanding). After deducting the U.S. cable system loss of $3,110,400 net earnings from operations dropped to $3,229,675 or 59 cents per share and after further deducting extraordinary items totalling $909,920, final net earnings dropped to $2,319,755 or 42 cents per share. This compares with net earnings from operations last year of $4,660,750 or 99 cents per share (based on 4,698,009 shares outstanding) and final net earnings of $10,610,450 or $2.26 per share. The substantial extraordinary gain last year arose from the sale of our soft-drink plant in Calgary.

The special charge of $3,110,400 (or 56 cents per share) represents our share of the net loss of our Chicago cable television system after deducting, for the first time, an allowance for depreciation and amortization of deferred start-up costs. This charge had been capitalized previously because the cable system was still under construction and so did not affect our bottom line. While the charge is substantial, it does not represent a new burden, since it is a non-cash item. In fact, the cash flow of the cable system itself is already positive. The extraordinary loss of $909,920 arose primarily from the shutting down of certain of our engineering operations, modified somewhat by a smaller extraordinary gain in our Foods Group which arose from the sale of a surplus building.

Summary of Group Performances
All three of our operating groups showed significant improvements in total sales over the previous year with very substantial increases generated by the Community Service Group and the Engineering Group. The Foods Group produced a steady build-up of both sales volume and net earnings from regular operations. The decision last year to develop branded food products for the retail market in parallel with our regular manufacturing operations for the industrial sector worked well for us and we are happy with the progress made in this direction.

The Community Service Group produced a substantial increase in total sales for the year, and while net earnings from regular operations were similar to the previous year, final net earnings were disappointing due primarily to the large special charge required to cover depreciation and amortization costs in connection with our Chicago cable system.

AGRA president B.B. Torchinsky and J. Hugh Falkner, managing director of the Indian Aluminum Company Limited sign a collaboration agreement as David A. Henry, AGRA's senior economist (on the right) looks on. This will lead to a joint venture company in India to carry out complete projects involving edible oil processing plants, pollution control installations and power generating plants.

The Engineering Group ended the year with a significant increase in total sales and a more than doubling of net earnings from operations. While these operating results were satisfactory, final results were unfortunately less impressive due to a considerable amount of extraordinary costs associated with closing down certain of our engineering offices.

Acquisitions
During the year we purchased three companies and were also awarded a concession to operate a fourth. In addition, subsequent to year-end we purchased two more companies. The three companies purchased during the year were Quan, Carruthers, King & Quan which provides consulting engineering services to the industrial sector; Vibroflotation, Inc., which operates unique vibratory equipment for stabilizing loose sand and silt foundation soils; and Biological Consultants Corporation which provides consulting services in the application of biological organisms for treatment of municipal, industrial and toxic wastes.

Near the end of the first quarter we were awarded the concession to operate all the duty-free shops at Vancouver's International Airport under a five-year contract which may be renewed for an additional five years.

Subsequent to our year-end we purchased all the shares of Hardy Associates (1978) Ltd., which provides specialized engineering consulting in the geotechnical, materials testing, environmental, geophysical and chemical engineering fields. We also purchased a 50 percent interest in Vadeko International, Inc., a young company which has demonstrated unique expertise in the field of systems engineering.

Financing
On March 14th, 1986 we completed a private placement of 1,500,000 units at $13.375 per unit, providing nearly $20,000,000 for our treasury. Each unit consisted of one class B non-voting AGRA common share and one warrant which entitles the holder to purchase one additional class B non-voting AGRA common share at a price of $13.375 up to January 15th, 1990. An additional $20,000,000 (approximately) is expected therefore to be raised when the warrants are exercised.

Outlook for 1987
Fiscal 1986 has been a year of consolidation and growth during which time we have continued the process of pruning and at the same time nurturing our existing operations with select new additions to promote their further development. We are staffed and equipped to take on a substantial work load in 1987, a good portion of which is already in hand. We look forward to opening our new Hyatt Britannia Resort complex in Grand Cayman next year and also getting started with construction of a new plant to extract vanadium from the Fort McMurray tar sands. Fiscal 1987 should be a very eventful and progressive year.

Sincerely,

B.B. Torchinsky,
President

Ten Year Review

		1986	1985	1984
Earnings Statistics	Revenues	**$171,499,342**	135,304,061	140,308,159
	Depreciation and Amortization	**3,266,653**	3,106,529	4,411,798
	Earnings Before Extraordinary Items	**3,229,675**	4,660,750	2,692,694
	Extraordinary Items	**(909,920)**	5,949,700	5,030,925
	Net Earnings	**2,319,755**	10,610,450	7,723,619
	Dividends Paid	**1,178,937**	1,031,638	1,000,816
Balance Sheet Statistics	Current Assets	**74,370,990**	58,659,573	51,884,598
	Current Liabilities	**36,014,453**	33,822,116	33,228,699
	Working Capital	**38,356,537**	24,837,457	18,655,899
	Fixed Assets — Net	**31,350,692**	23,557,010	40,836,120
	Long-Term Debt	**17,487,640**	19,550,029	34,933,349
	Shareholders' Equity	**90,009,091**	66,943,530	51,817,158
Common Share Statistics*	Earnings per Share	**.42**	2.26	1.68
	Dividends per Share (A B)	**.20/.24**	.20 .24	.20 .24
	Equity per Share	**13.65**	13.63	10.83
	Return on Equity (average)	**3%**	18%	16%
Other Statistics*	Average Shares Outstanding	**5,498,867**	4,698,009	4,587,246
	Number of Shareholders	**1,300**	1,200	1,200
	Total Shares Traded	**2,736,629**	1,349,900	938,537
	Price (high low)	**17.75/7.75**	9.375 4.25	7.00 4.00

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

1983	1982	1981	1980	1979	1978	1977
132,334,965	151,922,836	160,007,590	139,217,043	105,629,644	181,730,078	154,077,097
4,293,092	3,838,535	5,666,515	3,847,289	3,184,967	3,560,953	2,818,559
2,197,948	4,143,909	4,010,714	1,297,691	989,473	2,579,878	2,139,496
2,311,289	—	2,587,973	149,093	(30,112)	3,741,005	(506,138)
4,509,237	4,143,909	6,598,687	1,446,784	959,361	6,320,883	1,633,358
460,836	353,875	—	—	924,878	835,762	761,209
46,073,590	46,705,258	52,873,652	49,965,343	42,980,718	37,192,909	38,157,933
23,649,071	24,900,967	33,924,060	32,165,852	29,217,562	26,871,633	28,592,991
22,424,519	21,804,291	18,949,592	17,799,491	13,763,156	10,321,276	9,564,942
40,296,745	40,696,028	27,551,329	30,314,630	20,444,912	26,321,703	25,572,113
36,580,651	38,739,340	28,061,826	36,940,363	26,261,826	21,627,655	19,220,781
44,803,950	41,379,471	38,198,000	31,492,232	30,028,736	30,019,197	24,465,701
.98	88	1.39	.31	.20	1.34	.46
.10	.075	—	—	.195	.18	.17
9.49	8.96	8.01	6.65	6.34	6.33	5.16
10%	10%	19%	5%	3%	23%	9%
4,599,915	4,746,250	4,753,798	4,740,004	4,743,104	4,740,278	4,689,680
1,100	1,300	1,500	1,900	1,900	1,950	1,900
884,449	542,538	1,383,206	815,426	1,023,302	681,458	453,396
7.00 4.50	4.625 3.25	5.187 2.563	3.125 2.30	3.688 2.938	3.50 2.375	3.813 2.563

Engineering Group

Consolidated revenues increased to $101,097,333 from $83,899,790 last year, and net operating profits after allowing for full taxes jumped ahead to $2,344,970 compared with $1,002,715 last year. A substantial extraordinary loss of $1,732,705 reduced final profit for the current year to $612,265. This compares with $211,475 last year after recognizing an extraordinary loss of $791,240. The extraordinary losses both last year and in the current year relate primarily to costs incurred in our ongoing program to shut down operations which have not been profitable in recent years.

The consulting engineering division did not move ahead as quickly as expected because anticipated major projects failed to materialize until near the end of our fiscal year. In spite of this, a substantial number of smaller projects enabled the division to keep its head above water. Most satisfactory results were turned in by Torchinsky Consulting in western Canada and Moore & Taber in California.

Unfortunately, two fairly large construction jobs in the United States did not go well, and as a result the contracting division in the U.S. produced disappointing results. On the other hand, our contracting division in Canada enjoyed a good year. Star performers were Beer Precast Concrete and Western Caissons. Both of these subsidiaries produced excellent operating results.

Construction of the Britannia Hyatt resort hotel and condominium project on our golf course in Grand Cayman is proceeding on schedule and completion of the hotel is still expected by the end of December or early in January, 1987. Phase One of the associated condominium project has already been completed and construction on Phase Two condominiums has started.

During the year we purchased Quan, Carruthers, King & Quan Consultants Limited which fits very well within the process design activities of our Cambrian Engineering Group. We also purchased the assets of Vibroflotation, Inc., which operates unique vibratory equipment to install deep rock columns in loose sand or silt foundation soils. This process stabilizes such materials and improves their ability to support major structures as well as their resistance to collapse during earthquake or earth tremor conditions. Vibroflotation will add a significant extension to AGRA's established deep foundation operations. In addition, we purchased Biological Consultants Corporation, a small company which provides consulting services in the application of biological organisms for treatment of municipal, industrial and toxic wastes.

Subsequent to year-end, we purchased all the shares of Hardy Associates (1978) Ltd. and a 50 percent interest in Vadeko International, Inc. Hardy is a well established, major geotechnical, geophysical and materials testing firm in western Canada which will be merged with BBT Geotechnical Consultants to form the largest operation of its kind in western Canada. Vadeko International is a young company which has demonstrated unique expertise in the design and fabrication of computerized electro-mechanical systems such as industrial robots for automated assembly and paint spraying as well as special security systems for the Bank of Canada.

Our Engineering Group is entering fiscal 1987 with several major projects in hand. These include a joint venture involvement in the engineering design of a major power plant in Saskatchewan; feasibility studies for edible oil plants in China and India; a 50 percent interest in a new vanadium extraction process from Alberta's tar sands, with construction of the plant proposed to start in 1987; completion in December, 1986 of our Hyatt Regency Hotel at the Britannia Resort and Golf Club in Grand Cayman, with a consequent speed up in the associated condominium development; and many other smaller projects. With all of this the outlook for 1987 is optimistic indeed.

Western Caissons' diver prepares to go down 100 feet in caisson to inspect and cut steel pipe at Churchill's deep sea port on Hudson Bay.

	1986	1985
Consolidated Revenue	**$101,097,333**	83,899,790
Net Earnings		
Before Extraordinary Items	**2,344,970**	1,002,715
After Extraordinary Items	**612,265**	211,475

Torchinsky Consulting has provided engineering services for construction of multi-well drilling pads and access roads for Esso's Cold Lake oil sands project in northern Alberta.

Hardy BBT Limited provides ongoing consulting engineering services to Suncor oil sands plant in northern Alberta, including environmental, geotechnical, construction inspection and materials testing expertise.

Community Service Group

Consolidated sales reached a record $82,016,712 compared with $59,079,665 last year. These sales figures include our 72% share of Cybermedix's sales being $43,656,500 for the current year and $37,746,500 last year. Cybermedix's sales 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 after full taxes but before including results from our U.S. cable television operation were $2,241,237 compared with $2,342,371 last year. Our share of the U.S. cable television operations produced a net loss of $3,110,400 mainly because major charges were recorded for the first time in Chicago to recognize depreciation and amortization of deferred start-up costs. These charges were previously capitalized since the cable system was still under construction. After including our share of the U.S. cable television operation, the Community Service Group produced a final net loss of $869,163. There were no extraordinary items in the current year, nor were there any extraordinary items last year.

The large increase in total sales resulted primarily from the addition of the duty-free shops in Vancouver's International Airport to our Allders subsidiary. Allders was awarded the concession to operate all the duty-free shops in Vancouver's International Airport early in the fiscal year. The concession is good for five years and contains a five-year renewal clause. The shops in Vancouver have been beautifully renovated and have already contributed to the successful performance of our duty-free sales division which includes Toronto's Pearson International Airport as well as Vancouver's International Airport.

Offsetting the excellent performance of the duty-free shops was our CKO radio broadcasting network which shows substantial promise for improvement. CKO moved closer to fulfilling this promise during the year, but increased costs for quality programming cancelled most of its very satisfactory growth in sales. In the new year we expect stabilized operating costs, combined with continuing growth in sales to finally confirm that CKO is a very valuable property.

Both our newsmagazine distribution company and our insurance brokerage company produced excellent earnings for the year. General News ended the year with record sales as well as record earnings and Canasco-Bonham continued the steady growth pattern it has exhibited since we began operations three years ago.

The medical diagnostic laboratory division, Cybermedix Health Services, experienced mixed results for fiscal 1986. The Canadian division of this operation suffered from the doctors' strike in Ontario, where extensive disagreement between the provincial government and the medical profession regarding billing practices affected normal treatment procedures. On the other hand, the U.S. division progressed very well and produced the best results ever for the year. In Canada the altercation between doctors and government has settled down and performance of our medical laboratories is slowly returning to normal.

Our Canadian cable television division, which presently serves over 172,000 subscribers across Canada, recently commenced a new project. They will provide construction supervision and management services for new cable systems in 31 rural communities passing some 16,000 homes across southern Ontario. In addition to receiving a consulting fee for this service, our company will also hold a 37 percent carried interest in the new operations as well as an option to acquire an additional 15 percent after 6 years.

For the new year we expect to see our medical laboratory business back on track while the newsmagazine and insurance brokerage operations continue their steady progress. Our duty-free sales and Canadian cable television divisions are both expected to continue producing excellent results while the radio broadcasting and U.S. cable television operations are ready to show major improvements in performance.

Kingston Cablenet provides cable television services throughout the city to more than 37,000 subscribers.

	1986	1985
Consolidated Revenues	**$82,016,712**	59,079,665
Net Earnings		
Before U.S. cable operation	**2,241,237**	2,342,371
After U.S. cable operation	**(869,163)**	2,342,371

Cybermedix's U.S. subsidiary, CMX Laboratories Inc., recently opened their modern new headquarters and central laboratory facility in the Audubon Office Park in Amherst, New York. An exterior and interior view of the new building are shown.

Allders' new duty free shop in Vancouver's International Airport.

Foods Group

Total sales of the Foods Group resumed building after the sharp drop which occurred when we sold our Calgary soft-drink plant at the end of fiscal 1984. Consolidated sales increased to $32,041,797 in the current year compared with $30,071,106 last year. Net earnings after allowing for full taxes also increased to $1,753,868 compared with $1,315,664 in the previous year. An extraordinary gain of $822,785 in the current year brought final net earnings to $2,576,653. The extraordinary item arose from the sale of a surplus building. In the previous year final net earnings reached a record $8,056,604 due primarily to the substantial extraordinary gain realized from the sale of the soft-drink plant.

Our bakery supply division, W.J. Lafave & Sons operated in an increasingly competitive environment this year. Several factors contributed to this situation. Major changes in the operation of in-store supermarket bakeries, the slow erosion of family owned bakeries and the disappearance of the old Dominion Store chain have all had an impact. Despite all these factors, Lafave was able to maintain its market share and showed improving results as the year progressed.

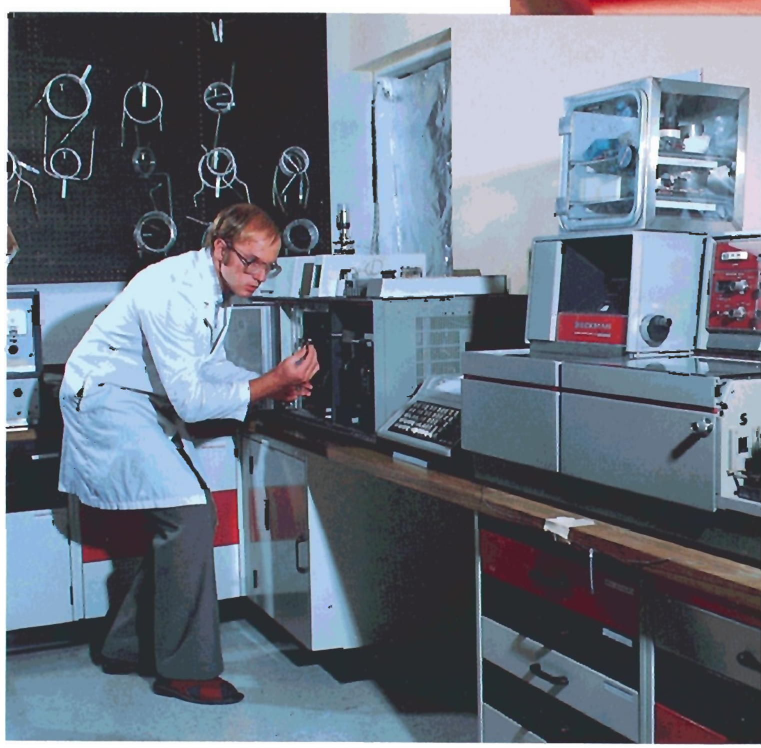
Research Foods manufactures dehydrated ingredients for the snack and convenience food industry. A weak Canadian dollar together with much improved export sales enabled the company to post gains for the year, in spite of high labor costs which continued to pressure margins. We have taken several steps to improve plant efficiency and this approach will be continued.

Maple Hill Foods was newly created last year to manufacture and market retail consumer products. The division expanded its distribution base and achieved improved results during the year. The "Sippin' Soup" line had excellent sales, while "Pop 'N' Snack" (home popcorn topping) and "Coffee Delight" (coffee creamer) both made substantial progress. The company continues to seek new product development and one of these, a new instant cheddar cheese sauce mix, was recently introduced.

Over the years Research Foods has maintained an extensive research laboratory for new product development as well as routine biological and chemical testing related primarily to edible food products. This lab operates as Canpro Laboratories and has recently shifted its major focus from research and testing to manufacture of biological and pharmaceutical products. Canpro now manufactures, under license, a range of specialty products for the dental profession and this holds considerable promise for the future.

For the new year we look forward to continued improvement in the W.J. Lafave operations, steady growth in both Research Foods and Maple Hill Foods, and rapid progress in Canpro Laboratories' new manufacturing operations.

W. Swanyk performs a gas chromatograph study for fluorides in pharmaceuticals at Canpro Laboratories.



Careful test procedures at Research Foods ensure quality products at all times.

	1986	1985
Consolidated Revenue	**$32,041,797**	30,071,106
Net Earnings		
Before Extraordinary Items	**1,753,868**	1,315,664
After Extraordinary Items	**2,576,653**	8,056,604

Research Foods attends the Food Marketing Institute show in Chicago, where food manufacturers and the supermarket industry throughout U.S. and Canada meet.

Revenues and Earnings

Consolidated sales during the current year reached $171,499,342 which is an increase of 27% over sales of $135,304,061 last year. Engineering, Community Service and Foods Group sales increased by $17,197,543, $17,027,047 and $1,970,691 respectively.

Net earnings for the year declined to $2,319,755 (42 cents per share) from $10,610,450 ($2.26 per share) last year. However, results from last year included extraordinary income of $5,949,700 ($1.27 per share), whereas extraordinary losses of $909,920 (17 cents per share) are included this year as well as $3,110,400 (56 cents per share) of non-cash losses arising for the first time from our U.S. cable television operation. Earnings from regular operations and before the U.S. cable loss increased to $6,340,075 ($1.15 per share) from $4,660,750 (99 cents per share) last year. Most of the increase in regular earnings was achieved in the Engineering Group.

Financial Position

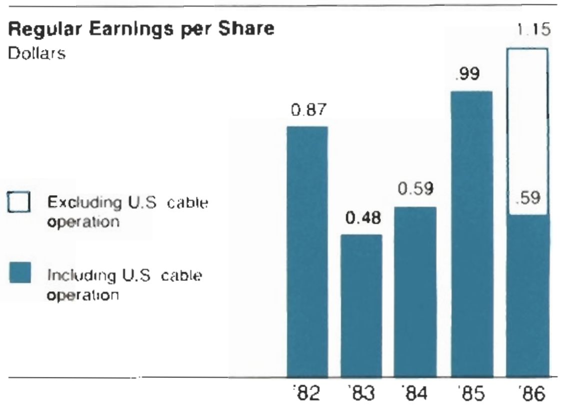
A major private placement of shares and warrants during the year produced $19,717,000 of new cash for the Company and placed us in the strongest financial position in our history.

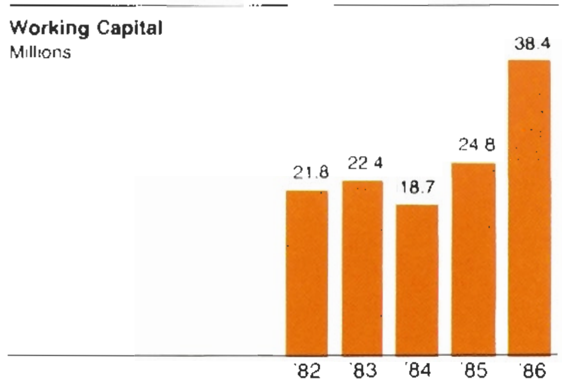
Working capital increased to $38,356,537 from $24,837,457 last year while long-term debt fell from $19,550,029 to $17,487,640. Shareholders' equity increased from $66,943,530 to $90,009,091.

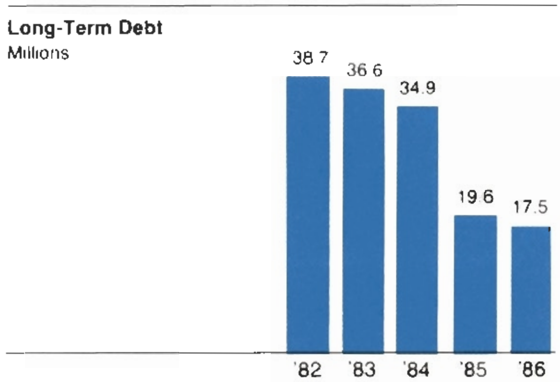
The issued warrants provide the holders with an option to purchase a total of 1,500,000 Class B non-voting AGRA common shares at a price of $13.375 per share until January 15, 1990. This will raise nearly $20,000,000 of additional capital should the warrants be exercised.

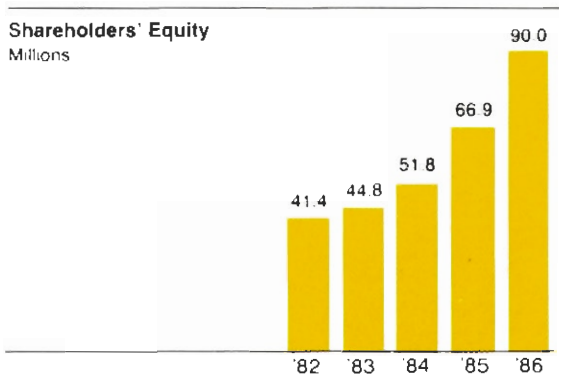
This continued strengthening of our financial position further enhances our stability and resources to provide for solid future growth.

T.A. McLellan
Executive
Vice-President









Auditors' Report

To the Shareholders
We have examined the consolidated balance sheet of AGRA Industries Limited as at July 31, 1986 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, 1986 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.

Auditors

Deloitte Haskins & Sells

Saskatoon, Canada
September 30, 1986

Consolidated Balance Sheet

July 31, 1986

	1986	1985
Assets		
Current		
Cash and short-term investments	**$ 10,476,744**	5,578,901
Accounts receivable	**32,837,961**	25,498,262
Inventory and contracts in progress	**19,703,607**	13,255,703
Loans to non-consolidated entities	**7,810,000**	13,066,947
Other	**3,542,678**	1,259,760
	74,370,990	58,659,573
Investments		
Non-consolidated entities	**30,019,352**	28,782,888
Other — at cost	**4,337,365**	5,583,703
	34,356,717	34,366,591
Fixed		
Land	**3,809,326**	2,829,529
Buildings	**13,671,041**	9,903,351
Equipment	**35,463,469**	31,821,938
	52,943,836	44,554,818
Less accumulated depreciation	**21,593,144**	20,997,808
	31,350,692	23,557,010
Other		
Excess cost of shares of subsidiaries acquired	**4,929,592**	4,558,085
	$145,007,991	121,141,259

On Behalf of the Board

B. B. Torchinsky
Director

T. A. McLellan
Director

	1986	1985
Liabilities		
Current		
Bank indebtedness (Note 2)	**$ 6,909,506**	6,335,680
Accounts payable	**24,780,165**	18,211,409
Income taxes payable	**—**	2,260,682
Current portion of long-term debt (Note 3)	**3,536,101**	5,988,319
	35,225,772	32,796,090
Deferred income taxes	**788,681**	1,026,026
	36,014,453	33,822,116
Long-term debt (Note 3)	**17,487,640**	19,550,029
	53,502,093	53,372,145
Minority interest	**1,496,807**	825,584
Shareholders' Equity		
Share capital (Note 7)		
Authorized		
Class A voting convertible shares, without nominal or par value		
Class B non-voting shares, without nominal or par value		
Issued and outstanding		
2,464,366 Class A shares	**5,771,935**	5,429,545
4,127,792 Class B shares	**26,162,500**	5,687,196
	31,934,435	11,116,741
Retained earnings	**52,979,320**	51,838,502
	84,913,755	62,955,243
Adjustment from translation of foreign currency	**5,095,336**	4,347,871
Shares held by affiliated company	**—**	(359,584)
Total Shareholders' Equity	**90,009,091**	66,943,530
	$145,007,991	121,141,259

Consolidated Statement of Earnings

Year Ended July 31, 1986

	1986	1985
Revenue (Note 14)	**$171,499,342**	135,304,061
Expenses		
Cost of sales and services, selling, general and administrative	**155,390,785**	121,465,328
Depreciation and amortization	**3,266,653**	3,106,529
Interest on long-term debt	**2,228,961**	3,041,191
Other interest	**554,943**	487,760
	161,441,342	128,100,808
Earnings before the following	**10,058,000**	7,203,253
Income taxes (Note 10)		
Current	**1,739,085**	2,847,539
Deferred	**3,107,150**	246,666
	4,846,235	3,094,205
	5,211,765	4,109,048
Minority interest	**(671,223)**	(586,983)
Earnings of non-consolidated entities other than U.S. cable operation	**1,799,533**	1,138,685
Earnings before U.S. cable operation and extraordinary items	**6,340,075**	4,660,750
Non-consolidated U.S. cable operation	**(3,110,400)**	—
Earnings before extraordinary items	**3,229,675**	4,660,750
Extraordinary items (Note 8)	**(909,920)**	5,949,700
Net earnings	**$ 2,319,755**	10,610,450
Earnings per share (Note 11)		
Before extraordinary items	**$ .59**	.99
After extraordinary items	**$ .42**	2.26

Consolidated Statement of Retained Earnings

Year Ended July 31, 1986

	1986	1985
Balance, beginning of year	**$ 51,838,502**	42,259,690
Add net earnings	**2,319,755**	10,610,450
	54,158,257	52,870,140
Less dividends paid	**1,178,937**	1,031,638
Balance, end of year	**$ 52,979,320**	51,838,502

Consolidated Statement of Changes in Financial Position

Year Ended July 31, 1986

	1986	1985
Source of Working Capital		
Operations		
Earnings before extraordinary items	**$ 3,229,675**	4,660,750
Items not affecting working capital	**8,042,383**	3,602,907
	11,272,058	8,263,657
Proceeds from		
Investments	**526,084**	300,715
Disposal of fixed assets	**803,719**	744,597
Long-term debt	**3,219,553**	3,424,976
Issue of share capital	**20,472,600**	511,900
Extraordinary items (net)	**—**	7,009,231
	36,294,014	20,255,076
Use of Working Capital		
Investments	**5,171,482**	3,957,816
Purchase of fixed assets	**9,128,054**	3,798,495
Retirement of long-term debt	**6,418,956**	5,953,028
Acquisition of subsidiary operations	**252,998**	—
Payment of dividends	**1,178,937**	1,031,638
Extraordinary items (net)	**861,852**	—
	23,012,279	14,740,977
Increase in working capital, excluding deferred income taxes	**13,281,735**	5,514,099
Working capital, beginning of year, excluding deferred income taxes	**25,863,483**	20,349,384
Working capital, end of year, excluding deferred income taxes	**39,145,218**	25,863,483
Deferred income taxes	**788,681**	1,026,026
Working capital, end of year	**$38,356,537**	24,837,457
Represented by		
Current assets	**$74,370,990**	58,659,573
Current liabilities, excluding deferred income taxes	**35,225,772**	32,796,090
Working capital, excluding deferred income taxes	**39,145,218**	25,863,483
Deferred income taxes	**788,681**	1,026,026
	$38,356,537	24,837,457

July 31, 1986

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. *Bank Indebtedness*

	1986	1985
Secured bank loans	$4,818,908	5,703,613
Cheques issued and *uncashed*	2,090,598	632,067
	$6,909,506	6,335,680

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

3. Long-Term Debt

	1986	1985
Mortgages, chattel mortgages and obligations under capital lease with interest rates averaging 11.5% (maturity dates to 1997)	$6,908,368	4,115,107
Notes, agreements and loans payable with interest rates averaging 11.0% secured by certain assets (maturity dates to 1996)	13,353,373	19,834,241
6½% Convertible Subordinated Debentures	762,000	1,589,000
	21,023,741	25,538,348
Less current portion	3,536,101	5,988,319
	$17,487,640	19,550,029

3. Long-Term Debt (continued)

The debentures are unsecured, direct obligations of the Company, maturing March 15, 1992, 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.

Principal payments for the five succeeding years are: $3,536,101; $3,344,340; $3,123,188; $3,793,704 and $653,963.

4. Lease Commitments
Minimum annual payments under long-term operating leases, the longest of which will expire in 1994, for the five succeeding years are: $11,586,000; $11,565,000; $11,778,000; $11,931,000 and $3,411,000 totalling $50,271,000. These commitments arise primarily from a concession agreement with Transport Canada.

5. Contingent Liabilities
The Company has guaranteed certain indebtedness and covenants of related companies in the amount of $8,085,000 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.

6. 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.

7. Share Capital
Changes in outstanding shares during the year

	Class A	Class B
Converted from debentures	63,601	63,601
Conversions	(39,948)	39,948
Issued for cash	5,800	1,547,500
	29,453	1,651,049

On March 14, 1986 the Company completed a private placement of 1,500,000 Units at the price of $13.375 per Unit, each Unit consisting of one Class B non-voting share and one Share Purchase Warrant entitling the holder to purchase an additional Class B non-voting share at the price of $13.375 at any time up to January 15, 1990.

At July 31, 1986 there were employee stock options outstanding in respect of 12,025 Class A shares and 70,475 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 1990.

During the period January 1, 1988 to March 31, 1988 the unit holders 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.

8. Extraordinary Items

	1986	1985
Gain on assets sold net of income tax of $486,267 (1985, $1,231,192)	$ 986,614	7,091,065
Loss on discontinued operations		
Consolidated entities, net of income tax recovery of $1,306,807 (1985, $1,433,212)	(1,376,978)	(1,141,365)
Non-consolidated entities	(519,556)	—
	$(909,920)	5,949,700

9. 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.

10. Income Taxes
The average statutory tax rate for the company and its subsidiaries is approximately 50%. However, the provision for tax is affected by items which are non-taxable or non-deductible for income tax purposes and by the manufacturing and processing profits deduction.

Income tax recoveries of $1,809,000 (1985, $1,104,000) relating to losses of non-consolidated entities are included in earnings of non-consolidated entities in the statement of earnings.

11. Fully Diluted Earnings per Share

	1986	1985
Before extraordinary items	$ .59	.90
After extraordinary items	.42	1.82

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

12. Related Party Transactions

During the year the Company earned fees and interest income of $2,032,245 (1985, $2,520,238) from non-consolidated entities.

Beer Precast supplied and installed 220,000 sq. ft. of insulated architectural concrete wall panels for Boston's Financial Centre, home to some of New England's leading legal and financial institutions.

13. Transactions Subsequent to Year-end

The Company acquired all of the outstanding shares of Hardy Associates (1978) Ltd. for $258,984 cash.

14. Segmented Information (in thousands of dollars)

	Engineering				Foods		Community Service		Consolidated Total	
	1986	1986	1985	1985	1986	1985	1986	1985	1986	1985
	Domestic	Foreign	Domestic	Foreign						
Revenue	$71,665	29,432	59,513	24,387	32,042	30,071	38,360	21,333	171,499	135,304
Earnings (losses)										
Before the following	2,027	(149)	819	654	1,754	1,316	1,580	1,320	5,212	4,109
Minority interest	—	—	—	—	—	—	(671)	(587)	(671)	(587)
Non-consolidated entities	467	—	183	(653)	—	—	1,332	1,609	1,799	1,139
Non-consolidated U.S. cable operation	—	—	—	—	—	—	(3,110)	—	(3,110)	—
Before extraordinary items	2,494	(149)	1,002	1	1,754	1,316	(869)	2,342	3,230	4,661
Extraordinary items	(973)	(760)	(444)	(347)	823	6,740	—	—	(910)	5,949
Net earnings (losses)	$ 1,521	(909)	558	(346)	2,577	8,056	(869)	2,342	2,320	10,610
Assets	$58,775	21,887	50,158	17,137	21,038	17,430	43,308	36,416	145,008	121,141
Depreciation and Amortization	$ 1,498	885	1,625	759	572	552	312	171	3,267	3,107
Capital Expenditures	$ 3,555	4,012	782	1,241	527	1,525	1,034	250	9,128	3,798

BOARD OF DIRECTORS

D.H.C. Beach
Nipawin

A. Golumbia*
Vancouver

S.J. Hamer
Vancouver

F.D. McCarthy
Edmonton

T.A. McLellan*
Saskatoon

C. Roles*
Saskatoon

H. Soloninka
Toronto

S.M. Stewart
Toronto

H. Tenenbaum
Toronto

A.Z. Torchinsky
Vancouver

B.B. Torchinsky
Toronto

H.M. Walker
Calgary

W.F. Wettstein
Calgary

*Member, Audit Committee

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

F.D. McCarthy
Vice-President,
Engineering Group
(Construction)

H. Soloninka
Vice-President,
Engineering Group
(Consulting)

C.R. MacFadyen
Vice-President,
Engineering Group
(Consulting)

D.G. Heath
Vice-President,
Engineering Group
(Manufacturing)

S.M. Stewart
Vice-President,
Community Service Group

A.W. Bean
Vice-President,
Special Investments

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

A.C. Rankin
Vice-President,
Corporate Development

O.P. Ritter
Corporate Counsel

Head Office
1200 CN Towers,
Saskatoon,
Canada
S7K 1J5
(306) 653-5163
Telex 074-2496
Fax (306) 653-1219

Office of the President
1201 Old Mill Towers,
39 Old Mill Road,
Toronto, Canada
M8X 1G6
(416) 858-8000
Telex 06-218797
Fax (416) 858-3332

Company Auditors
Deloitte Haskins
& Sells
Saskatoon,
Saskatchewan

Registrar and Transfer Agent
Common Shares and
Warrants:
The Canada Trust
Company
Convertible Debentures:
The Canada Trust
Company

Securities Exchange Listing
Toronto
Stock Exchange
Montreal
Stock Exchange

ENGINEERING GROUP

2200 Argentia Road
Mississauga, Ontario
L5N 2K7

Hardy BBT Limited
221 - 18 Street S.E.
Calgary, Alberta
T2E 6J5

Also Located In:
Vancouver, British Columbia
Edmonton, Alberta
Fort McMurray, Alberta
Bonnyville, Alberta
Peace River, Alberta
Saskatoon, Saskatchewan
Lloydminster, Saskatchewan
Red Deer, Alberta
Lethbridge, Alberta
Medicine Hat, Alberta
Prince Albert, Saskatchewan
Regina, Saskatchewan

Sergent, Hauskins & Beckwith Geotechnical Engineers, Inc.
3232 West Virginia Ave.
Phoenix, Arizona
85009

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

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
Quan, Carruthers, King & Quan Consultants Limited
119-105th Street E.
Saskatoon, Saskatchewan
S7N 1Z2

Also Located In:
Toronto, Ontario
Calgary, Alberta

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

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

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.
4810 North Black Canyon Hwy
Suite 310
Phoenix, Arizona
85017

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

Also Located In:
Ft. Worth, Texas

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

Vibroflotation, Inc.
2500 Balwick Road
Suite 200
Pittsburgh, Pennsylvania
15205

Also Located In:
Miami, Florida

Biological Consultants Corporation
203 Kenimer Avenue
Suite 101
Trussville, Alabama
35173

Vadeko International, Inc. (50%)
#62, 6535 Millcreek Drive
Mississauga, Ontario
L5N 2M2

Coast Steel Fabricators Ltd.
1515 Kingsway Avenue
Port Coquitlam,
British Columbia
V3C 1S2

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

Mocoat Industries Ltd.
5636 Burbank Crescent S.E.
Calgary, Alberta
T2H 1Z6

Ellesmere Developments Ltd. (80%)
Epicon Properties Inc. (36%)
1700-800 5th Avenue S.W.
Calgary, Alberta
T2P 3T6

Ellesmere (Cayman) Ltd. (73%)
Box 168, West Bay Road
Grand Cayman Island, B.W.I.

COMMUNITY SERVICE GROUP

Cablenet Limited (72%)
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 (36%)
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 2E9

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

Cybermedix Limited (72%)
1200 Sheppard Avenue East
Willowdale, Ontario
M2K 2S5

Canasco-Bonham Insurance Brokers (1982) Ltd. (49%)
616-789 Don Mills Road
Don Mills, Ontario
M3C 1T5

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

Also Located In:
Vancouver International Airport
Vancouver, British Columbia

FOODS 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

Contain-A-Way Ltd.
L.B. Container Recycling Ltd.
Leswaste Systems
1324-44th Avenue N.E.
Calgary, Alberta
T2E 6L6

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