AGRA Industries Limited   Annual Report 1987

AGRA Industries is a diversified Canadian company comprised of four broad-based operating groups. 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 specialty steel fabricating plant. The Community Service Group operates airport duty-free shops, and provides radio broadcasting services, wholesale newsmagazine distribution and insurance brokerage services. The Foods Group manufactures bulk specialty ingredients for the snack food and baking industries as well as several branded retail food lines. The Cybermedix Group operates medical diagnostic laboratories and cable television systems. 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 photographs illustrate selected activities of AGRA's four operating groups

1 **Engineering Group —**
(Top) Hardy BBT Limited provided materials consulting, inspection and testing services for evaluation and rehabilitation of the dock substructure which now supports the Pan Pacific Hotel and Convention Centre at Canada Place in Vancouver. The dock was originally built in 1927 and its restoration included the first Canadian use of silica fume shotcrete.

2 **Foods Group —**
(Bottom left) Product stability is constantly monitored in Research Foods' Canpro laboratory.

3 **Community Service Group —**
(Bottom centre) Rudy Blair operates a control panel for network radio programming at CKO's Toronto station.

4 **Cybermedix Group —**
(Bottom right) Burt Schenk adjusts a satellite receiving dish located at Cablenet's Burlington head-end.

Annual Meeting

The annual meeting of shareholders will be held at 2:30 P.M. on Wednesday, January 27, 1988 in the Governor General's Suite in the Hilton International Hotel, 145 Richmond Street West, Toronto. If you cannot be present, please vote by proxy.

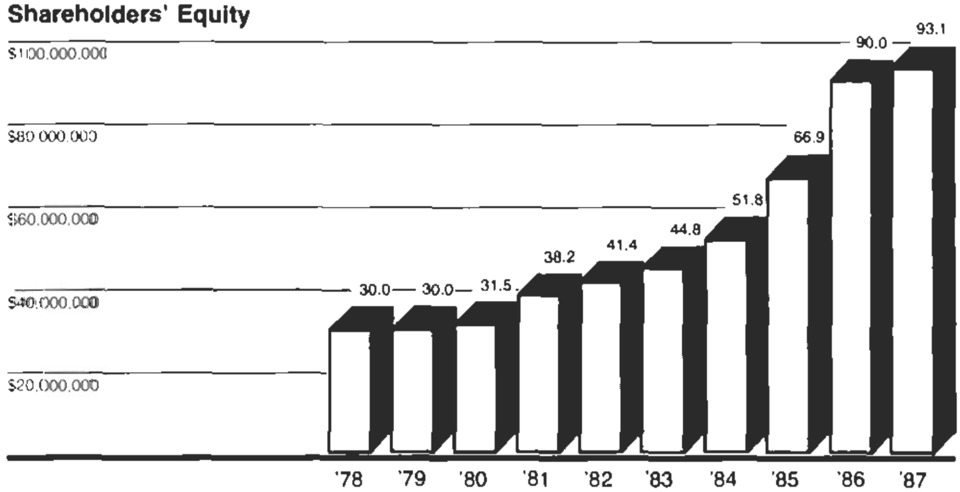
Contents

Corporate Highlights

		1987	1986
Operations			
Revenue	$	**207,797,630**	171,499,342
Earnings from operations*		**8,774,436**	6,340,075
Net earnings		**7,291,023**	2,319,755
Per Share			
Earnings from operations*	$	**1.32**	1.15
Net earnings			
Before extraordinary items		**1.04**	.59
After extraordinary items		**1.10**	.42
Fully diluted earnings			
Before extraordinary items		**.92**	.59
After extraordinary items		**.95**	.42
Dividends — Class A		**.20**	.20
— Class B		**.24**	.24
Equity		**13.99**	13.65
Other			
Average shares outstanding		**6,631,381**	5,498,867
Return on equity		**8%**	3%
Working capital	$	**42,507,771**	38,356,537

* Excludes extraordinary items, discontinued and U.S. cable operations

Shareholders' Equity



Ellesmere Developments' new hotel in Grand Cayman was officially opened April 23, 1987. The hotel is operated by the Hyatt Corporation under a management contract

Report to the Shareholders

B. B. Torchinsky, President

Financial Results

Fiscal 1987 ended for AGRA on July 31, 1987 with consolidated revenue of $207,797,630 compared with $171,499,342 last year. After allowing for full taxes, but before our U.S. cable television operations and before extraordinary items, consolidated net earnings from operations came in at $8,774,436 or $1.32 per share (based on 6,631,381 shares outstanding). This compares with net earnings from operations last year (before U.S. cable and extraordinary losses) of $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 $1,854,100 ($3,110,400 loss last year), net earnings dropped to $6,920,336 or $1.04 per share ($3,229,675 or 59 cents per share last year), and after adding net extraordinary gains totalling $370,687 (subtracting $909,920 of net extraordinary losses last year) final net earnings came to $7,291,023 or $1.10 per share compared with $2,319,755 or 42 cents per share last year.

The $1,854,100 (or 28 cents per share) loss item is our share of the operating loss of the U.S. cable television system in Chicago up to March 10, 1987 at which point our interest in that company was sold. A significant extraordinary loss was also incurred as a result of the sale itself, however this was more than offset by an extraordinary gain realized late in the fiscal year when our Cybermedix subsidiary completed an initial public offering of its shares which became listed for trading on the Toronto Stock Exchange.

Summary of Group Performances

Both the Engineering Group and the Community Service Group produced significant increases in revenue and in net earnings, however the Foods Group slipped behind last year's performance due primarily to competitive pressures. The branded food line developed two years ago for the retail trade continued to build steadily, and we have recently developed several new products for our industrial sector which should help to get this group back on track.

Our Engineering Group was busy throughout the year and produced increases in both revenue and earnings. We completed the construction of our Hyatt Regency hotel at the Britannia Resort and Golf Club in Grand Cayman, as well as the first 53 condominiums alongside the hotel golf course. This activity and the activity of our consulting and contracting divisions resulted in reasonably satisfactory progress for the Engineering Group.

The performance of our Community Service Group was substantially ahead of last year. Increases in revenue and earnings were obtained primarily by the excellent results from our duty-free operations in Toronto and Vancouver. A major accomplishment was the successful completion by Cybermedix of an initial public offering of its Class B subordinate voting shares and subsequent listing of these shares on the Toronto Stock Exchange. Starting with this annual report we have removed Cybermedix from the companies included in our Community Service Group and instead will report on it separately under the heading "Cybermedix Group".

Acquisitions and Dispositions

Our Engineering Group completed two acquisitions during the year. We purchased all the shares of Hardy Associates (1978) Ltd. and also 50 percent of the shares of Vadeko International Inc. Hardy is a well established engineering company which provides specialized consulting services in the geotechnical, materials testing, environmental, geophysical and chemical engineering fields. Vadeko is a young company which specializes in the design and fabrication of computerized electro-mechanical systems such as industrial robots for automated assembly and paint spraying systems. Both of these acquisitions worked out well and we are pleased with their initial results.

Total Revenue [1]

	1987	1986
Engineering Group	$ 126,022,956	111,380,114
Foods Group	31,856,446	32,041,797
Community Service Group	37,387,083	27,526,206
Cybermedix Group	50,420,000	43,657,000
Total Revenue[1]	$ 245,686,485	214,605,117

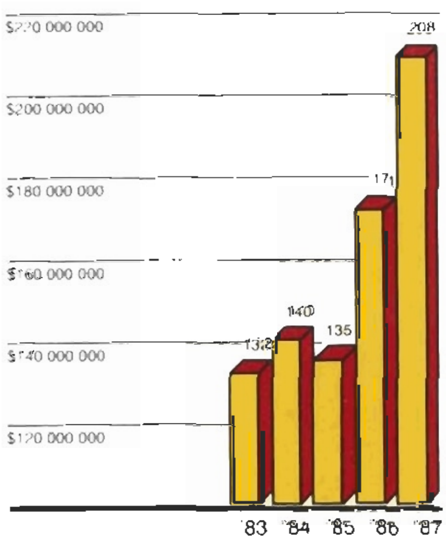
(1) AGRA's proportionate share of revenue is included for companies which are not 100% owned and for companies which are treated on an investment basis in the consolidated statements.

Total Operating Income[1]

	1987	1986
Engineering Group	$ 9,671,754	8,070,718
Foods Group	2,895,407	3,822,550
Community Service Group	1,764,095	(632,044)
Cybermedix Group	11,070,000	9,676,000
Total Operating Income[1]	$ 25,401,256	20,937,224

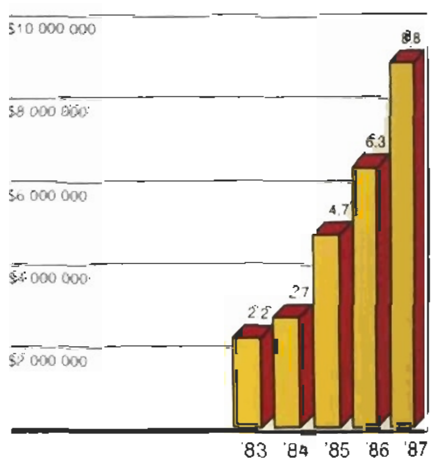
(1) All operating income figures shown are before interest, taxes, discontinued and extraordinary items. In cases where AGRA holds less than 100% of a company, operating income figures shown include only AGRA's proportionate share.

Consolidated Revenue



Consolidated Earnings —

Before Extraordinary and Discontinued Items



Cybermedix sold its 50 percent interest in the Chicago cable system and also purchased a group of medical laboratories in Rochester, N.Y. at mid-year. This will extend its medical laboratory operations in the United States and should provide increased economies of scale in this division.

Subsequent to the year-end, our Foods Group acquired all the shares of Dixie Lee Food Services Inc., a franchiser of the Dixie Lee chicken and seafood restaurant chain. This company presently franchises 60 restaurants in various small communities of Ontario and British Columbia and is ready to expand in other parts of the country. Allders International was the successful bidder for the duty-free shop concession in Calgary's international airport and expects to take over in November of 1987. Early in the new year CKO Radio purchased the Newsradio division from Maclean Hunter. This operation provides news services to approximately 119 radio stations across Canada on a contractual basis, and should result in a substantial enhancement of CKO's operating income.

Public Financing

Near year-end, Cybermedix completed an initial public offering of 3,000,000 Class B subordinate voting shares of which a block of 2,200,000 shares was issued from treasury and a block of 800,000 shares was sold by AGRA as a secondary issue. The shares were sold for $7.75 each, generating a total of $23,250,000. After paying all expenses associated with the sale, Cybermedix received net proceeds of approximately $15,800,000 and AGRA received net proceeds of approximately $5,800,000. As a result of the sale, AGRA's equity interest in Cybermedix dropped to 52 percent.

Changes in Directors

Mr. D.H.C. Beach retired from the AGRA board in 1987, having reached the mandatory retirement age of 70. Dexter Beach was one of the original founding directors of AGRA and served from the very beginning of our company in 1959. He also served for many years as an AGRA employee and contributed a great deal of his time and wisdom for the benefit of our company. To replace Mr. Beach, the shareholders elected Mr. Edward J. Kernaghan to our board. Mr. Kernaghan is the president and senior shareholder of Thomson Kernaghan & Co. in Toronto. He is a major investor in AGRA and we look forward to his experience and assistance in the deliberations of our board.

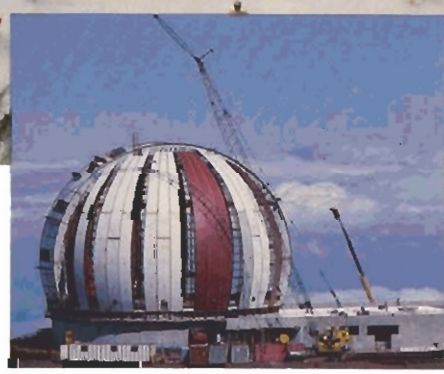
Outlook

Fiscal 1987 was indeed a busy and eventful year for AGRA. We accomplished many things, such as the completion of the Britannia Resort hotel in Grand Cayman, the sale of our U.S. cable television system in Chicago and the spinning off of our Cybermedix division into a public company in which we continue to hold a major position and whose shares are listed on the Toronto Stock Exchange. We have many more projects for fiscal 1988. These include a construction start of the vanadium extraction plant in Fort McMurray, Contain-A-Way's major expansion into California, integration of the duty-free operations at Calgary's international airport into our Allders subsidiary, and the development of our newly acquired Dixie Lee franchising company as well as several additional new projects. We expect to show significant progress again in 1988.

Sincerely yours,

B.B. Torchinsky,
President

Revenue
Earnings Before Discontinued and Extraordinary Items
Net Earnings



	1987	1986
	$ 121,938,709	101,097,333
	3,029,186	2,344,970
	2,953,873	612,265

Total revenue for fiscal 1987 increased to a record $121,939,000 compared with $101,097,000 last year. Operating income before allowing for taxes and interest costs as well as discontinued and extraordinary charges was $9,672,000 compared with $8,071,000 last year. After deducting interest charges and allowing for full taxes, net earnings increased to $3,029,000 compared with $2,345,000 last year. A small extraordinary loss of $75,000 brought final net earnings for the current year to $2,954,000 whereas an extraordinary loss of $1,733,000 last year brought final net earnings to $612,000. The extraordinary loss last year related to costs incurred from shutting down two unproductive operations.

The consulting engineering division showed considerable improvement over last year. The geotechnical division in particular showed excellent results. This division includes Sergent Hauskins & Beckwith as well as Moore & Taber in the U.S., and the newly acquired Hardy Associates (1978) Ltd. in western Canada which was merged with our own BBT Geotechnical Consultants to form Hardy BBT Limited. Our highways design division, Torchinsky Consulting, recently changed its name to Torchinsky Engineering. This company once again produced gratifying results as it has consistently done over the years. Camrec Facilities Consultants also enjoyed a good year while the newly acquired Vadeko International got off to a slow start, but picked up several interesting projects late in the year which should blossom in the future. Our Canadian International Power company and The Cambrian Engineering Group, which includes Quan, Carruthers, King & Quan, improved their operations in 1987 but did not perform as well as expected because of late-starting projects. Several of these are now rolling however, and the outlook for considerable improvement next year is clear.

The construction division had a reasonably good year, particularly in western Canada where Western Caissons once again turned in good results. Frontier Foundations performed well in Seattle where it successfully completed the largest single foundation contract in our company's history ($15,000,000). This contract also included the largest caissons ever installed by our company (12 feet in diameter and 130 feet deep).

We completed construction of the new hotel at our Britannia Resort and Golf Club in Grand Cayman, and it turned out as beautiful and elegant as anticipated. Unfortunately the completion schedule ran a few months late so we missed a major part of the winter season's operations. However, indications are very good for high occupancy levels at good rates next year. A total of 53 condominiums were completed adjacent to the golf course, and while many of these were sold by year-end, the rate of sales has not been as brisk as anticipated.

The Engineering Group is entering 1988 with a much increased backlog of work over previous years. This includes the design of a new pharmaceutical plant in Canada, two new edible oil plant studies for private clients in India, a physical refinery project for a client in Norway, operating assistance for electrical utilities in Guyana and Belize, a study for a 60MW power plant in India, and a substantial increase in activity on the 300 MW Shand power plant construction in Saskatchewan. We look forward to continuing improvements in operating results from our Engineering Group next year.

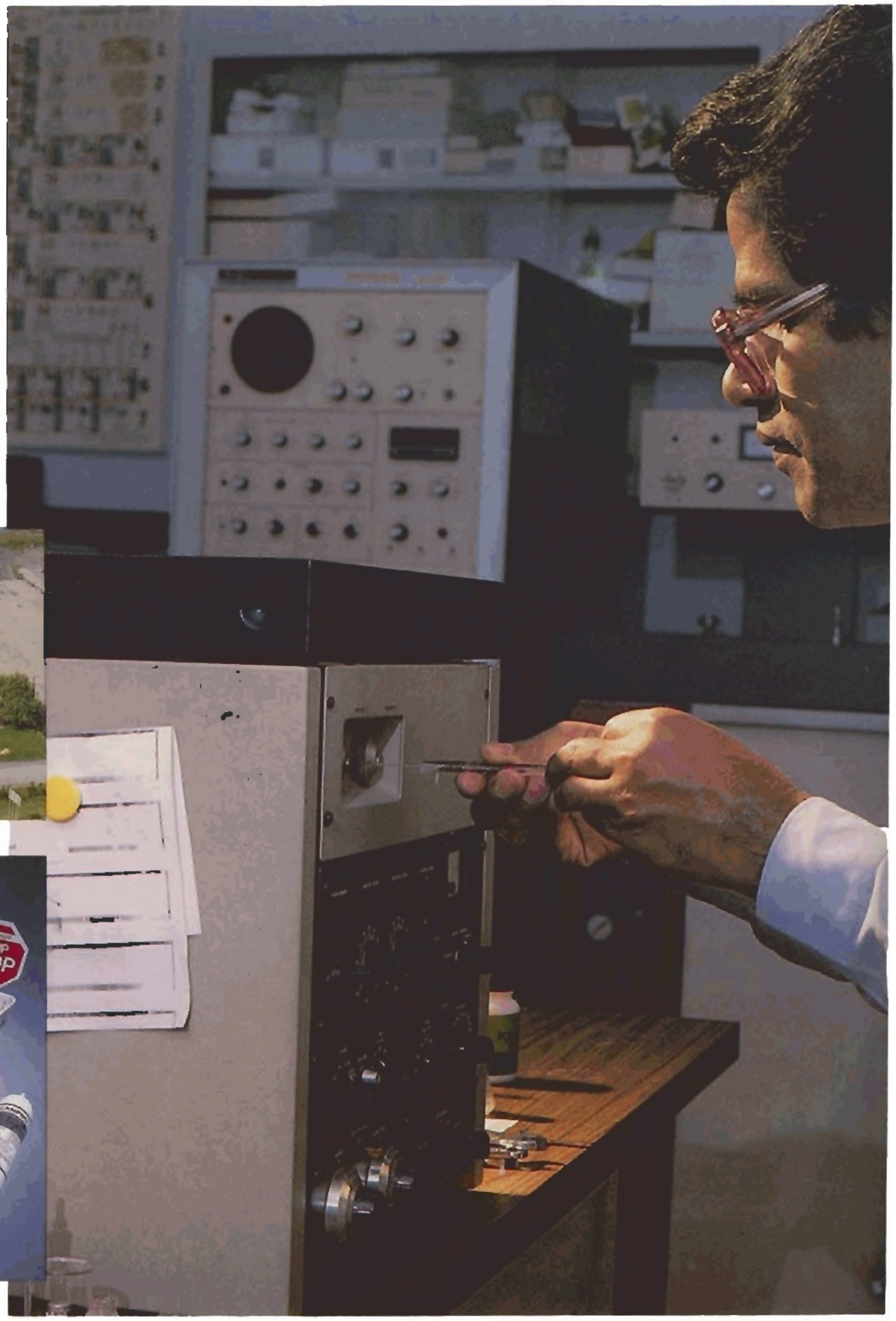
(Opposite) Camrec Facilities Consultants was responsible for development planning and design of all the pools and water treatment systems for World Waterpark located at the West Edmonton Mall in Alberta. Complete with 6 foot waves, palm trees, relaxing beaches, whirlpools and many novel water slides up to 75 feet high, this is the largest indoor water theme park in the world.

(Top) Giant reinforcing cages weighing 36 tons require two cranes to lift into huge caissons, 12 feet in diameter and 130 feet deep, installed by Frontier Foundations for the underground bus transportation project through downtown Seattle.

(Bottom left) Moore & Taber provided geotechnical engineering and construction management for a sea cliff stabilization project in California.

(Bottom right) Coast Steel Fabricators' special project group is completing construction of the rotating dome enclosure for the 100 million dollar W.M. Keck observatory located 14,000 ft. above sea level on top of Mount Mauna Kea in Hawaii. The observatory will boast a 10-metre telescope (the largest and most powerful in the world) and will be operated jointly by the University of California and Caltech.

Revenue	
Earnings Before Discontinued and Extraordinary Items	
Net Earnings	



1987	1986
$ 31,856,446	32,041,797
1,412,607	1,753,868
1,412,607	2,576,653

Our Foods Group includes W.J. Lafave & Sons Ltd., Research Foods Limited with its two divisions, Canadian Professional Laboratories (Canpro) and Maple Hill Foods, and Contain-A-Way Ltd., our beverage container recycling operation in Alberta. Consolidated revenue of $31,856,000 fell behind last year when revenue reached $32,042,000. Net earnings also slipped with $1,413,000 recorded for the year compared with $1,754,000 last year. There were no extraordinary items in the current year, however a special gain from the sale of a surplus building increased last year's total net earnings to $2,577,000.

Research Foods produces ingredients for snack and convenience foods and manufactures a line of retail products under its Maple Hill Foods label. Through Canpro Laboratories the company provides consulting and testing services to the food industry and also produces specialty pharmaceutical products particularly for the dental profession. W.J. Lafave is a major processor of ingredients for the baking industry. This year saw a modest improvement in Lafave's performance and we expect this trend to continue through next year. Contain-A-Way supervises the recycling of containers for the soft-drink industry as well as for all liquor and wine bottles in Alberta. The company operated satisfactorily throughout the year.

The reduction of total revenue and net earnings was caused primarily by increased competition in the industrial side of Research Foods' operations. The domestic market in this area has been static but we were able to offset this to some extent by increasing emphasis on the export of bulk specialty products to a growing Pacific Rim market. Also, new products recently developed for the fast food industry have shown encouraging results.

Another cause of reduced profits was the start-up cost associated with Canpro's entry into the pharmaceutical market, all of which was written off during the year. Canpro Laboratories now produces a line of products primarily for the dental profession and is slated for major growth and expansion as it increases its role in the pharmaceutical and health care industry.

Research Foods recently acquired all the shares of Dixie Lee Food Services Inc., a franchiser of Dixie Lee chicken and seafood restaurants throughout Canada except in eastern Quebec and the Maritimes. Dixie Lee also owns the franchise name throughout the United States. At present the company has 45 fast food restaurants franchised in Ontario and in addition 15 restaurants franchised in British Columbia. The company has been well established in Canada for many years, but has grown very slowly. It is now in a good position to expand in many parts of the country and we believe our Foods Group is well equipped to properly manage this expansion.

With increased activities in the production of specialty food products for the retail market, in the pharmaceutical industry and in the franchising of fast food restaurants, our Foods Group is expected to show considerable growth over the next few years.

(Opposite, right) Gas chromatography is used to analyse vitamin content of a sample in Research Foods' laboratory by lab technician S. Datta

(Top left) W.J. Lafave & Sons main plant is in St. Jerome, Quebec, just north of Montreal. The plant sits on 7 acres and has an area of 65,000 square feet

(Bottom left) Some of the products produced by Research Foods through its Maple Hill Foods and Canpro Laboratory divisions

Revenue
Earnings Before Discontinued
and Extraordinary Items
Net Earnings

	1987	1986
	$ 54,002,475	38,360,212
	433,543	(788,163)
	433,543	(788,163)

The Community Service Group includes Allders International (Canada) Limited in which we hold a 51 percent interest and which operates all the duty-free shops at the international airports in Toronto and Vancouver. It also includes W.T. McMullen & Associates Inc., which is the new name of our insurance brokerage subsidiary in which we hold a 49 percent interest as well as General News, our wholly-owned newsmagazine distributor in southern Alberta, and CKO Radio Partnership, our all-news radio broadcasting network across Canada.

This year, for the first time, we removed Cybermedix and all its operations from the Community Service Group and placed them into a separate new group, which we will call the Cybermedix Group. We did this to clarify our reporting system and we believe this to be particularly apropos in view of the fact that Cybermedix has recently been spun off as a publicly held company in which AGRA retains a majority interest.

Total revenue for the Group reached $54,003,000 compared with revenue of $38,360,000 last year. The large increase was due primarily to the substantial growth of Allders' duty-free shop operations both in Toronto and in Vancouver. We can expect additional growth from Allders next year since they recently completed an enlarged and enhanced duty-free shop with a special duty-paid section as an added feature in downtown Vancouver. In addition, Allders will take over the duty-free shop at Calgary's international airport in November, 1987, having successfully out-bid other competitors.

Operating income of the Community Service Group continues to be depressed by the losses incurred in our CKO Radio operations. In spite of this, total operating income before taxes, interest and extraordinary items rose to $1,764,000 for the Group compared with a loss of $632,000 last year. After allowing for full taxes and all interest charges, net earnings for the group were $433,000 compared with a loss of $788,000 last year. There were no extraordinary items in the current year nor were there any last year.

The substantial turnaround in performance was due primarily to Allders' significant increase in revenue and earnings as well as the steady contributions of our General News subsidiary and also of our insurance brokerage company, W.T. McMullen & Associates Inc. The name of the insurance company was changed during the year to properly reflect the name of our major partner who is in charge of this operation.

The CKO Radio Partnership also experienced significant revenue growth in most market areas, however high operating costs inhibited bottom line improvement. In August, CKO acquired the Newsradio division from Maclean Hunter which provides a news-wire and news-voice service to 119 subscribing radio stations across Canada. CKO also agreed with Maclean Hunter to apply to the CRTC for an exchange of broadcasting facilities in Toronto for which, if approved, Maclean Hunter will pay us $4,000,000. We project operating losses for CKO to decline substantially in fiscal 1988 with breakeven following in one to two years time. All operating losses incurred in developing CKO Radio have been written off over the years. Once this operation turns around, AGRA will hold a very valuable asset which is not presently reflected in our balance sheet.

(Opposite) Allders' newly opened duty-free shop in downtown Vancouver contains nearly 10,000 square feet of display area and includes a broad range of gift and specialty items as well as an entire duty-paid gift section in addition to the normal inventory of perfume, tobacco and liquor products

(Top) Eva DiGiacinto broadcasts the afternoon traffic report on CKO Radio

(Bottom) In addition to magazines and paperback books, General News also distributes specialty lines such as this display of batteries

Revenue(1)
Earnings Before Discontinued and Extraordinary Items
Net Earnings(2)

(1) Since Cybermedix is not consolidated in AGRA' annual statement its revenue figures are not inc in AGRA's consolidated revenue

1987	1986
$ 69,931,000	60,592,000
5,423,000	4,805,000
2,491,000	(81,000)

(2) Net earnings figures shown are pro-rated to reflect AGRA's actual share

The Cybermedix Group is comprised of a medical diagnostic laboratory division and a cable television division. AGRA's share (72%) of Cybermedix's total revenue for the year reached $50,420,000 compared with $43,657,000 last year. Our share of operating income before deducting interest charges, taxes, discontinued and extraordinary items was a substantial $11,070,000 compared with $9,676,000 last year. After deducting interest costs and allowing for full taxes, our share of earnings was $3,899,000 in the current year, compared with $3,029,000 last year. All of these figures do not include the losses incurred from discontinued operations of the U.S. cable system in Chicago, nor do they include the extraordinary loss incurred when Cybermedix's interest in the U.S. cable system was sold near the end of the year. After allowing for these losses and also after allowing for the extraordinary gain from the public issue of treasury shares and sale of some of our Cybermedix shares, AGRA's share of the final net earnings was $2,491,000 compared with a loss of $81,000 last year.

The decision to sell our U.S. cable interest in Chicago was made near the end of the year because the company was making slow progress, operating losses were very high, and the ongoing requirements to maintain the project represented a heavy drain on our human and financial resources.

The sale of Chicago cable produced a very large accounting loss of $12,049,000 for Cybermedix. In spite of this, your directors felt it was a good decision because as a result of the sale both Cybermedix and AGRA were released from all direct and indirect liabilities for the system and Cybermedix received $15,000,000 (U.S.) in cash. The sale also cleared the way to take Cybermedix public and a successful initial public offering was completed by year-end.

From AGRA's point of view, our share of the accounting loss created by the sale of the Chicago cable system ($8,681,000) plus our share of the operating loss of the cable system for the year ($1,854,000), was mostly offset by our special gain from Cybermedix's successful share issue and from the sale of our 800,000 Cybermedix shares ($9,127,000). Consequently, we now have the entire Chicago problem behind us and Cybermedix is in an excellent position to continue building what is now a very healthy operation.

Fiscal 1987 was a challenging year for Cybermedix's medical laboratory division due to rising costs and minimal rate increases. To offset the resulting pressures on operating margins, Cybermedix invested heavily in more efficient premises and more automated equipment. The U.S. medical diagnostic division moved into a newly constructed laboratory building in West Amherst, N.Y. to accommodate its rapid growth and extensive renovations were carried out at our central laboratory in Toronto to provide for future growth in Canada. A new group of laboratories in Rochester, N.Y. was acquired in December, 1986 which brought us into the fields of veterinary medicine and environmental testing, and further acquisitions to improve economies of scale are planned for the future. The Canadian cable television division, which now serves 180,000 subscribers, also had a good year, and steady growth in revenue and earnings are expected in the new year, aided by growth in the relatively new field of cable television advertising.

(Opposite) Donna Lynn Doucette prepares a sample for analysis by the "Paramax" Analyzer at Cybermedix's central laboratory in Toronto. This machine can process 32 different chemistry tests at a rate of up to 600 tests per hour

(Top left) CMX Health Labs' new central laboratory in West Amherst, New York

(Bottom left) Brian Knatchbull and Debbie Burke on location in Cablenet's new mobile cable TV unit in Oakville

Financial Review

Revenue

Consolidated revenue increased 21% during the year to $207,798,000 from $171,499,000 last year. Engineering Group revenue increased to $121,939,000 from $101,097,000. Community Service Group revenue increased to $54,003,000 from $38,360,000, while Foods Group revenue remained steady at $31,856,000 compared to $32,042,000 last year. You will notice in the President's report to shareholders that our proportionate share of revenue from all companies in which we own an interest is $245,686,000.

Earnings

Net earnings for the year increased sharply to $7,291,000 ($1.10 per share based on 6,631,000 shares outstanding) from $2,320,000 (42 cents per share based on 5,499,000 shares outstanding) last year. The results include a net extraordinary gain of $371,000 (6 cents per share) this year compared to a net extraordinary loss of $910,000 (17 cents per share) last year. As well, a loss of $1,854,000 (28 cents per share) arose from our U.S. cable television operation compared with a loss of $3,110,000 (56 cents per share) last year. Further losses have been eliminated by the sale on March 10, 1987 of this cable operation.

The extraordinary items during the year consisted of a gain of $2,318,000 (after taxes of $1,111,000) arising from our sale of 800,000 shares of Cybermedix, as well as an increase of $6,809,000 in the book value of our investment in Cybermedix which resulted from their issue of 2.2 million shares from treasury. A loss of $8,681,000 resulting from our share of the sale of Cybermedix's partnership interest in a U.S. cable television system, and losses of $75,000 arising from discontinued operations reduced the net extraordinary gain to $371,000 for the year.

The significant thing about this year's earnings per share is that earnings from our on-going operations increased from $1.15 per share to $1.32 per share even though the average shares outstanding during fiscal 1987 were 20% greater than last year.

Financial Position

Working capital continued to increase to $42,508,000 versus $38,357,000 last year. Two significant items during the year were the raising of approximately $5,800,000 on a secondary offering of 800,000 Cybermedix shares, and a long-term advance of $6 million to Ellesmere Developments to assist in the financing of our Cayman Islands project. In accordance with pronouncements of the Canadian Institute of Chartered Accountants, the Statement of Changes in Financial Position has been replaced with the Statement of Changes in Cash Position to better reflect the Company's cash position. While the likes of inventory and accounts receivable are working capital items, there is a period of time before they will be turned into cash. Our year-end cash position of $6,395,000 is somewhat better than last year's $5,691,000 and is represented by cash and short-term investments of $14,098,000 less bank indebtedness of $7,703,000.

Long-term debt advanced to $19,609,000 from $17,488,000 last year. Our long-term debt is in a healthy state when you consider we have equity in the books of $93,100,000.

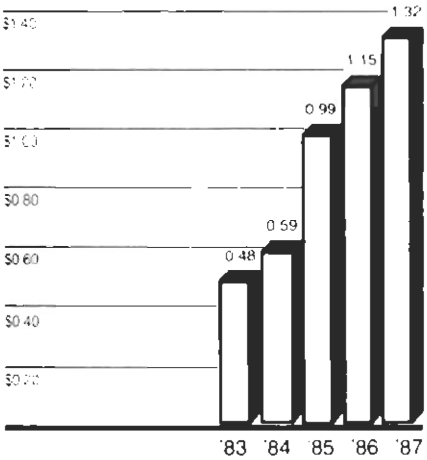
As is the case in most companies which have held assets over many years, AGRA's statement includes certain assets whose underlying value substantially exceeds the book value. One such major example is our equity investment in 6,258,000 shares of Cybermedix which is included in "Investment in Non-consolidated Entities" at a book value of $18,285,000. This investment was demonstrated to have a value of $48,499,000 on July 21, 1987 based on the market value of $7.75 per share at which price Cybermedix shares were listed on the Toronto exchange and 3 million shares were sold. While the market price fluctuates daily, this is an example of an asset which has grown very substantially since its acquisition, producing an underlying value far in excess of book value.

With shareholders' equity approaching $100 million, a working capital position of 2 to 1, and an excellent debt to equity ratio, AGRA is well positioned to continue its growth into the future.

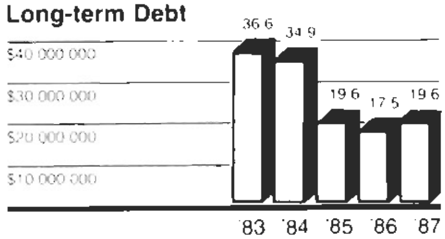
T. A. McLellan,

Executive Vice-President

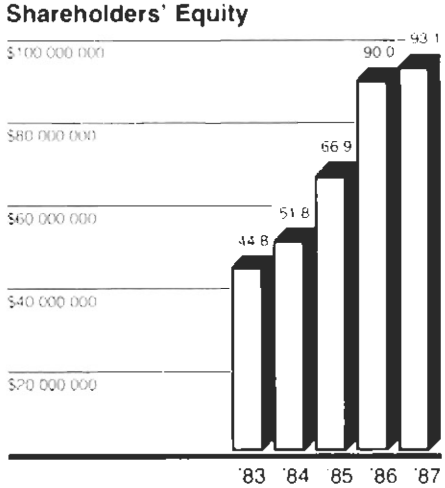
Regular Earnings per Share
(Before extraordinary items
and discontinued operations)



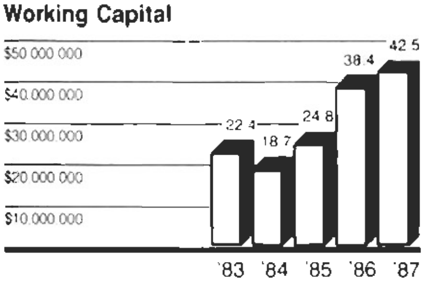
Long-term Debt



Shareholders' Equity



Working Capital



(Top) Beer Precast Concrete manufactured the pre-cast wall panels including factory installed, pre-glazed window sashes for the Canterbury Green project in Stamford, Connecticut. This major structure integrates a 14 story office tower and commercial retail space with two residential wings. The project is a beautiful example of skillful design blending the old and the new, wherein the Episcopal Church became a partner in the development of its property.

(Bottom) A typical panel destined for the Canterbury Green project is examined in Beer Precast's Toronto plant.

Auditors' Report

To the Shareholders

We have examined the consolidated balance sheet of AGRA Industries Limited as at July 31, 1987 and the consolidated statements of earnings, retained earnings and changes in cash 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, 1987 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

Auditors

Saskatoon, Canada

September 25, 1987

Consolidated Balance Sheet

July 31, 1987

	1987	1986
Assets		
Current		
Cash and short-term investments	**$ 14,098,170**	10,476,744
Accounts receivable	**38,855,049**	32,837,961
Inventory and contracts in progress	**25,641,974**	19,703,607
Loans to non-consolidated entities	**4,104,590**	7,810,000
Other (Note 3)	**2,665,834**	3,542,678
	85,365,617	74,370,990
Investments		
Non-consolidated entities (Note 4)	**34,172,252**	30,019,352
Other — at cost (Note 5)	**2,915,003**	4,337,365
	37,087,255	34,356,717
Fixed		
Land	**3,753,500**	3,809,326
Buildings	**14,108,622**	13,671,041
Equipment	**37,225,263**	35,463,469
	55,087,385	52,943,836
Less accumulated depreciation	**22,562,409**	21,593,144
	32,524,976	31,350,692
Other		
Excess cost of shares of subsidiaries acquired	**4,997,848**	4,929,592
	$159,975,696	145,007,991

On behalf of the Board

B. B. Torchinsky
Director

T. A. McLellan
Director

	1987	1986
Liabilities		
Current		
Bank indebtedness (Note 6)	$ **7,703,571**	6,909,506
Accounts payable	**26,602,830**	24,780,165
Income taxes payable	**2,346,907**	–
Current portion of long-term debt (Note 7)	**4,666,993**	3,536,101
	41,320,301	35,225,772
Deferred income taxes	**1,537,545**	788,681
	42,857,846	36,014,453
Long-term Debt (Note 7)	**19,608,722**	17,487,640
Deferred Income Taxes	**1,028,834**	–
	63,495,402	53,502,093
Minority Interest	**3,379,697**	1,496,807
Shareholders' Equity		
Share capital (Note 11)	**32,471,638**	31,934,435
Retained earnings	**58,776,101**	52,979,320
	91,247,739	84,913,755
Adjustment from translation of foreign currency	**1,852,858**	5,095,336
Total Shareholders' Equity	**93,100,597**	90,009,091
	$159,975,696	145,007,991

Consolidated Statement of Earnings

Year Ended July 31, 1987

	1987	1986
Revenue (Note 19)	**$207,797,630**	171,499,342
Expenses		
Cost of sales and services, selling, general and administrative	**185,365,634**	155,390,785
Depreciation and amortization	**4,484,401**	3,266,653
Interest on long-term debt	**2,343,780**	2,228,961
Other interest	**544,920**	554,943
	192,738,735	161,441,342
Earnings before the following	**15,058,895**	10,058,000
Income taxes (Note 14)		
Current	**4,334,783**	1,739,085
Deferred	**3,237,334**	3,107,150
	7,572,117	4,846,235
	7,486,778	5,211,765
Minority interest	**(1,882,890)**	(671,223)
Earnings of non-consolidated entities other than U.S. cable operation	**3,170,548**	1,799,533
Earnings before U.S. cable operation and extraordinary items	**8,774,436**	6,340,075
Non-consolidated U.S. cable operation	**(1,854,100)**	(3,110,400)
Earnings before extraordinary items	**6,920,336**	3,229,675
Extraordinary items (Note 12)	**370,687**	(909,920)
Net earnings	**$ 7,291,023**	2,319,755
Earnings per share (Note 15)		
Before extraordinary items	**$1.04**	.59
After extraordinary items	**$1.10**	.42

Consolidated Statement of Retained Earnings

Year Ended July 31, 1987

	1987	1986
Balance, beginning of year	**$ 52,979,320**	51,838,502
Add net earnings	**7,291,023**	2,319,755
	60,270,343	54,158,257
Less dividends paid	**1,494,242**	1,178,937
Balance, end of year	**$ 58,776,101**	52,979,320

Consolidated Statement of Changes in Cash Position

Year Ended July 31, 1987

	1987	1986
Cash Provided By (Used In)		
Operating Activities		
Earnings before extraordinary items	**$ 6,920,336**	3,229,675
Items not affecting cash flow	**7,933,735**	8,095,315
Decrease (increase) in non-cash working capital		
Accounts receivable	**(3,133,092)**	(6,990,908)
Inventory and contracts in progress	**(4,563,966)**	(6,416,458)
Other current assets	**38,716**	(131,286)
Accounts payable	**180,541**	5,980,779
Income taxes payable	**2,403,653**	(2,261,882)
	9,779,923	1,505,235
Extraordinary items	**(528,358)**	(2,727,275)
	9,251,565	(1,222,040
Investing Activities		
Purchase of fixed assets	**(6,176,920)**	(9,128,054)
Proceeds on disposal of fixed assets	**1,645,405**	803,719
Investment in non-consolidated entities	**(8,569,529)**	(5,171,482)
Acquisition of subsidiary operations	**(785,114)**	(60,934)
Proceeds from investments	**6,877,865**	5,783,031
	(7,008,293)	(7,773,720)
Extraordinary items	–	1,455,859
	(7,008,293)	(6,317,861
Financing Activities		
Proceeds from long-term debt	**2,857,442**	3,697,786
Retirement of long-term debt	**(3,440,282)**	(9,003,563
Issue of share capital and options	**537,203**	20,472,600
	(45,637)	15,166,823
Payment of Dividends	**(1,494,242)**	(1,178,937
Increase in Cash	**703,393**	6,447,985
Cash (Bank Indebtedness), beginning of year	**5,691,206**	(756,779
Cash, end of year	**$ 6,394,599**	5,691,206
Represented by		
Cash and short-term investments	**$14,098,170**	10,476,744
Other deposits	–	2,123,968
Bank indebtedness	**(7,703,571)**	(6,909,506)
	$ 6,394,599	5,691,206

July 31, 1987

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.

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. Acquisitions and Disposal

During the year the Company acquired the following:

100% of the shares of Hardy Associates (1978) Ltd. for $258,984 cash.

50% of the shares of Vadeko International Inc. for $155,000 cash and 15,367 Class B shares of the Company.

Effective March 10, 1987 Cybermedix Inc., in which the Company holds a 52.4% interest, disposed of its investment in a U.S. cable television operation for U.S. $15,000,000 (Cdn. $19,907,000) cash.

3. Other Current Assets

	1987	1986
Notes and mortgages		
— current portion	$1,518,892	365,235
Prepaid expenses	1,146,942	1,053,475
Deposits	–	2,123,968
	$2,665,834	3,542,678

4. Investments in Non-consolidated Entities

	1987	1986
Cybermedix Inc. (Note 20)	$18,285,402	22,887,402
Ellesmere Developments Ltd.		
— equity	3,552,489	2,381,050
— loans	7,540,000	1,540,000
CKO Radio Partnership	3,408,172	2,233,812
Other	1,386,189	977,088
	$34,172,252	30,019,352

5. Other Investments

	1987	1986
Notes and mortgages		
— long-term portion	$2,436,680	3,415,842
Other	478,323	921,523
	$2,915,003	4,337,365

6. Bank Indebtedness

	1987	1986
Secured bank loans	$5,000,840	4,818,908
Cheques issued and uncashed	2,702,731	2,090,598
	$7,703,571	6,909,506

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

7. Long-term Debt

	1987	1986
Mortgages, chattel mortgages and obligations under capital lease with interest rates averaging 11.5% (maturity dates to 1999)	$ 3,771,802	6,908,368
Notes, agreements and loans payable with interest rates averaging 9.5% secured by certain assets (maturity dates to 1999)	19,838,913	13,353,373
	23,610,715	20,261,741
Less current portion	4,666,993	3,536,101
	18,943,722	16,725,640
6½% Convertible Subordinated Debentures	665,000	762,000
	$19,608,722	17,487,640

Principal payments for the five succeeding years are: $4,666,993; $3,299,424; $3,955,750; $749,012 and $4,695,252.

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 and $6.50 per Class B share.

8. Lease Commitments

Minimum annual payments under long-term operating leases, the longest of which will expire in 2003, for the five succeeding years are: $12,891,000; $12,699,000; $12,573,000; $3,825,000 and $716,000, totalling $42,704,000. These commitments arise primarily from a concession agreement with Transport Canada, with respect to duty-free shops in the Toronto and Vancouver airports.

9. Contingent Liabilities

The Company has guaranteed certain indebtedness and covenants of affiliated companies in the amount of $28,584,000 and has guaranteed the cash flow of a hotel project for the first five years of operation.

10. 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.

11. Share Capital

	1987	1986
Authorized		
Class A voting convertible shares, without nominal or par value		
Class B non-voting shares, without nominal or par value		
Issued and Outstanding		
2,398,999 Class A shares	$ 5,651,793	5,771,935
4,256,490 Class B shares	26,819,845	26,162,500
6,655,489	$32,471,638	31,934,435

Changes in outstanding shares during the year:

	Class A	Class B
Outstanding, beginning of year	2,464,366	4,127,792
Converted from debentures	7,457	7,457
Conversions	(78,049)	78,049
Issued for cash	5,225	27,825
Issued for investment acquired	–	15,367
	(65,367)	128,698
Outstanding, end of year	2,398,999	4,256,490

At July 31, 1987 there were 1,500,000 Share Purchase Warrants outstanding, each entitling the holder to purchase one Class B non-voting share at a price of $13.375 at any time up to January 15, 1990.

At July 31, 1987 there were employee stock options outstanding in respect of 5,850 Class A shares and 80,500 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 1987 and 1991.

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.