



LAGRA Industries Limited
Annual Report 1989

Cover Photo

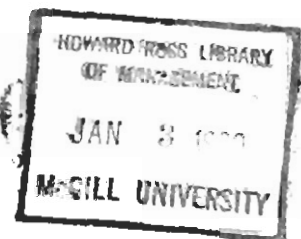
**John Disano, TACS Development
Manager for Vadeko International
supervises the production of new
Canadian \$50 bills at the Bank of
Canada's currency security facility
in Ottawa. The Vadeko TACS
machine applies an optically variable
device developed by Vadeko to each
bill to protect the currency from
counterfeiting. This technology
offers diverse spin-off opportunities,
including overt document security,
a high-speed, continuous foil
application system for the printing
industry and a revolutionary pack-
aging product with worldwide
market potential.**

Company Profile

AGRA Industries Limited is a diversified Canadian company dedicated to the development of assets through the application of professional management to strategic business opportunities including consulting engineering, niche manufacturing, contracting, high technology, specialty foods, pharmaceuticals, recycling, duty-free retail and resort development. AGRA markets Canadian products from its broad portfolio across North America and around the world. AGRA stock is traded on the Montreal and Toronto stock exchanges.

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Corporate Highlights

	1989	1988
Operations		
Revenue	\$247,088,655	231,116,392
Net earnings	56,799,544	7,774,850
Per Share		
Net earnings		
Before extraordinary items	(.43)	.46
After extraordinary items	3.90	.58
Fully diluted earnings		
Before extraordinary items	(.43)	.43
After extraordinary items	3.04	.52
Dividends—Class A	.10	.10
—Class B	.12	.12
Equity	10.82	7.15
Other		
Average shares outstanding	14,561,120	13,376,952
Return on equity	43%	8%
Working capital	\$105,323,642	39,287,707

Revenue

	1989	1988
Engineering, Construction & Technology	\$140,528,787	128,018,701
Food & Pharmaceuticals	37,484,791	37,208,890
Asset Development & Investments	69,075,077	65,888,801
	\$247,088,655	231,116,392

Earnings Before Extraordinary Items

	1989	1988
Engineering, Construction & Technology	\$ 2,349,290	3,009,250
Food & Pharmaceuticals	(9,826,127)	(2,391,094)
Asset Development & Investments	1,158,645	5,506,083
	\$ (6,318,192)	6,124,239

Chairman's Report

The 1989 financial year provided a dramatic illustration of AGRA's growth philosophy: of the challenges implicit in promising ventures and the rewards to be gained by nurturing companies to maturity.

Two of our newest ventures, the Britannia resort project in Grand Cayman and the Contain-A-Way beverage container recycling operation in California figured prominently in our operating results. Due to the ambitious and complex nature of these projects, startup costs exceeded original budget estimates by a significant margin causing a major depression in earnings for the year. Both ventures had almost reached the milestone break-even point by year-end, but this was before allowing for debt service. In the new year, both businesses will operate profitably, but it is unlikely they will generate sufficient funds to fully service the substantial investment required to build them.

Despite this obstacle, AGRA is in a stronger financial position than ever before with most debts paid off and a strong balance sheet to support all of our ongoing operations.

Ironically, it was our new ventures which provided the impetus for this performance. AGRA's senior management initially set out to establish suitable long-term loans to replace the numerous bridge loans we used for the development of Contain-A-Way and the Britannia resort. It quickly became clear that long-term loans would generate substantial interest costs and require burdensome covenants as part of their guarantees.

We wanted an alternative. After some investigation, we determined that the value of our Cybermedix subsidiary was greater than the price at which the shares were trading. The time was ripe; at the end of the fiscal year we confirmed an agreement to sell 100% of our Cybermedix shares for a very substantial capital gain.

This solid financial backbone serves to reinforce AGRA's existing strengths, including its most important asset: its people. To our broad base of talented professionals in the areas of engineering, technology, accounting, legal and business development, I would like to welcome Mr. Alex Taylor, AGRA's new President and Chief Operating Officer. Mr. Taylor is a talented professional engineer with a distinguished background and a wealth of experience in those areas of greatest interest to us.

The stage is set for AGRA to emerge as one of the major diversified engineering and asset development organizations in Canada.



B.B. Torchinsky

Chairman of the Board

A handwritten signature in black ink, appearing to read "B.B. Torchinsky".

B.B. Torchinsky

President's Address

I am pleased to join AGRA in a time of so much opportunity. With its broad range of engineering strengths, AGRA remains well positioned to exploit a trend toward advanced technologies in the '90's. Although overall revenues increased 7% in 1989, the largest growth took place in the engineering/construction technology sector, where revenues increased 9.7%. To our proven capabilities in food production, specialty construction, electric power systems, facilities engineering and robotics we are adding new environmental processes and services.

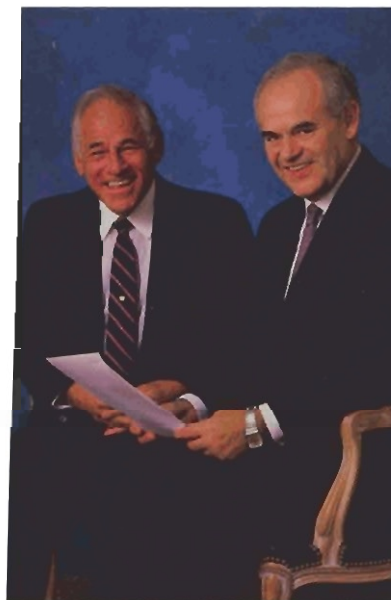
Initiatives like the Carbovan vanadium extraction plant, Vadeko's high vacuum/thin film deposition work and Contain-A-Way's container recycling operation demonstrate the challenges and opportunities that characterize emerging technologies and services. New investments, though necessary for long-term growth, often carry high startup costs which consume a significant portion of available resources. This resource pool must be constantly renewed for future investment by guiding our new companies into a fuller realization of their earning potential.

We must move to ensure greater overall profitability in our operations. Business downturns due to market fluctuations are inevitable, and AGRA's diversification strategy is designed to minimize their impact. Where existing companies are experiencing difficulty, new approaches may be necessary to improve their competitive profile.

Certain companies have performed very well, translating their potential into solid growth. We will continue to direct resources towards those operations which demonstrate the best performance.

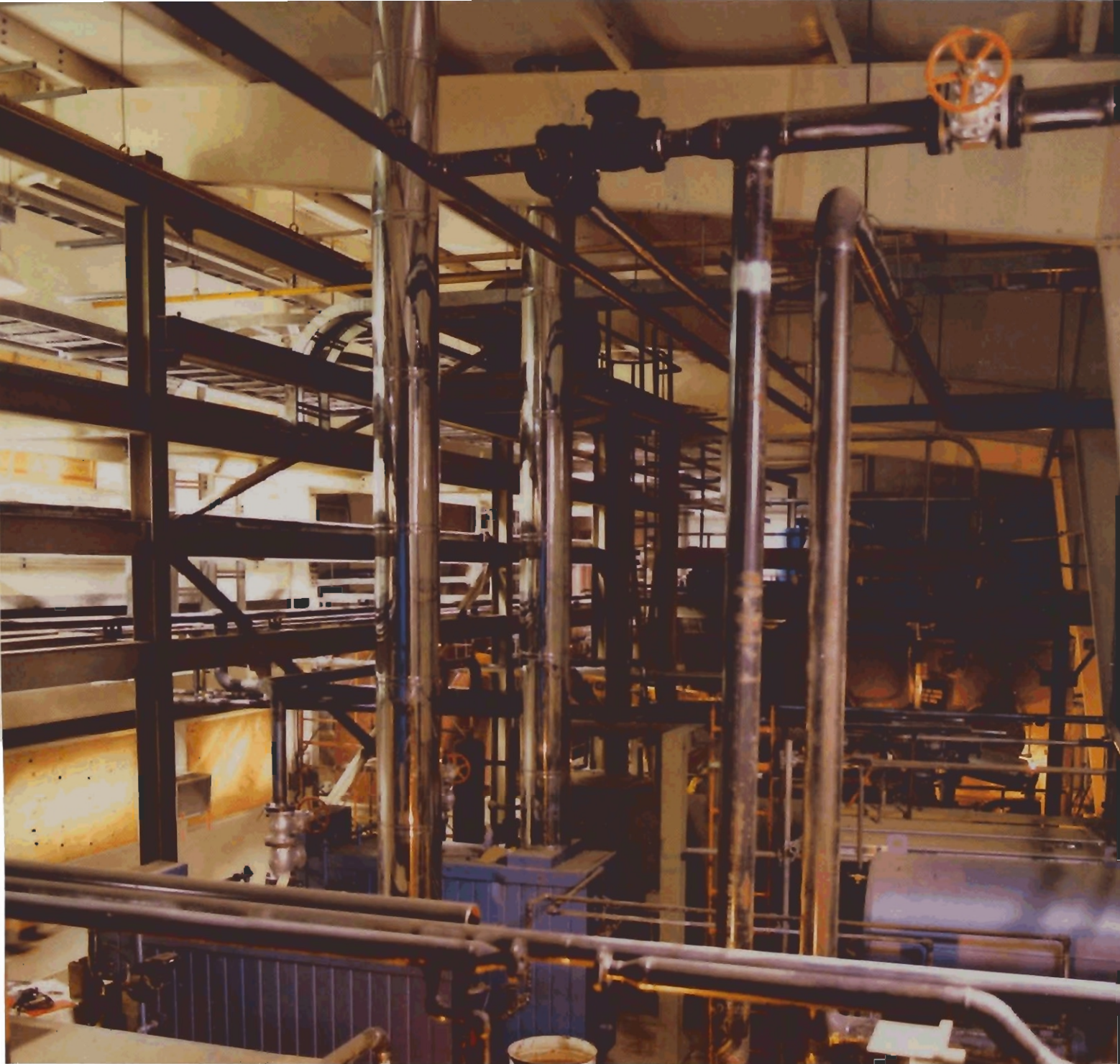
The force of market evolution decrees that some AGRA products or services will gradually become obsolete. When this occurs, our companies must adapt to the changing environment or face decline. Where adaptation is not possible, we must recognize this and 'harvest' our investments in a timely fashion.

The new decade dawns with great promise for AGRA. The twin challenges of changing global markets and environmental concerns will press AGRA people to the limits of their creativity and skill. Our ability to meet these challenges as an effective team will determine the degree of our success. I look forward with confidence to an era of prosperity and unprecedented growth.



B.B. Torchinsky, Chairman of the Board, and Alex Taylor, President

Alex Taylor



A maze of piping fills the new Carbovan vanadium pentoxide plant in Fort McMurray, Alberta. This new venture employs a sophisticated **AGRA extraction process** called column flotation to remove valuable **vanadium** from waste products generated by the local tar sands synthetic crude operations. The scarce mineral is used to make high-strength alloy steel.

Engineering, Construction and Technology Group

The Cambrian Engineering Group remained active in both domestic and foreign markets. Cambrian was responsible for many elements of the Carbovan vanadium pentoxide plant project.

The company provided design and installation supervision for over 200 km. of high pressure gas pipeline.

The first **campro** deodorizer built in India will be ready for commissioning in early 1990. Cambrian also sold two Canadian produced edible oil refining systems to China.

Canadian International Power Services has begun engineering of a fourth 13 megawatt diesel generator and installation of a 17 megawatt gas turbine generator for the Barbados Light and Power Company. Work continues on the 300 megawatt Shand power station for Saskatchewan Power Corporation.

Hardy BBT achieved excellent results with improvements in British Columbia operations and a major contract on the OSLO tar sands project in Fort McMurray. This geotechnical consulting assignment involved analysis of data derived from piezometers and over 300 boreholes drilled and supervised by Hardy BBT.

Moore and Taber increased their revenues by 38% largely due to geotechnical services for major sanitary landfill projects and other opportunities in California. The Compaction Grouting division also contributed to this improvement. The company looks forward to continued growth at a more moderate pace.

Sergent, Hauskins & Beckwith increased revenues 25% in an effort to maintain their market position. High start up costs for their newest office in Reno, Nevada and a construction slowdown in Phoenix and Salt Lake City reduced earnings.

Torchinsky Engineering enjoyed their best year to date. The road engineering company, known for reliable performance and steady returns, is well positioned to exploit a move by the Alberta government to privatize secondary highway construction.

Diversified high technology company Vadeco International achieved good profit performance. Prominent among several new contracts is the Automated Aircraft Painting System for McDonnell Douglas of Long Beach, California, worth approximately \$14,000,000 at completion. This is the world's first robotic painting system for aircraft and promises wider application in the aerospace industry.



The massive diesel generators of the Spring Garden production facility provide the island of Barbados with a reliable, low cost electricity supply. Engineering services for the facility were provided by Canadian International Power Services (CIPS). CIPS has assisted the Barbados Light and Power Company with planning and development over the last twenty years.



The Williams Plaza in Fairfax, Virginia shows the striking exterior typical of the many U.S. buildings which employ architectural precast concrete panels manufactured by Beer Precast Concrete Limited. Located in a revitalized city center, the office building features bullnose panels with a flamed granite finish.

Development and production trials for the Bank of Canada's new currency security process were completed. A Vadeko engineered optical security device affixed to each bill protects currency from colour-copier counterfeiting. This technology offers extensive spin-off opportunities. Vadeko will now swing into routine production of the optical security device for the Bank's ongoing requirements.

The combined Canadian branches of *Western Caissons* exceeded their budgeted bottom line. *Pile Foundations of Winnipeg*, purchased in March, 1989, has already proven successful. *National Rathole* has been hurt by continued inactivity in the oil industry and will be downsized until oil exploration increases.

U.S. operations failed to meet their targets. The Seattle office, however, secured a multi-million dollar contract after year end and is awaiting award on a second contract of similar size. U.S. based *Vibroflotation* achieved its best results since the company was purchased three years ago.

Beer Precast Concrete reported strong earnings on continued export of precast concrete panels and architectural forms to the U.S. market. Beer products were employed on a variety of new structures, including the *World Wide Plaza* in New York City, the *Exchange Place Center* in Jersey City, New Jersey and the *Georgetown University Law Center* in Washington, D.C.

With 95% of work contracted, the current construction cost estimate for the *Carbovan* vanadium pentoxide plant in Fort McMurray, Alberta is \$15.0 million. The plant is scheduled to begin production by early 1990. Demand for vanadium pentoxide, used in high strength, low alloy steels, has been high. Additional reclamation opportunities, including nickel recovery and spent catalyst processing, are under study.

Coast Steel Fabricators' new product direction produced over \$10,000,000 in sales of heavy steel plate fabrication and other specialty products. Approximately 60% of revenues were obtained from sales to the pulp and paper industry and from retrofits to thermal power plants in B.C. and Alberta.



Hardy BBT geotechnical engineer Garry Bain collects samples of contaminated soil at an old refinery site as part of an environmental cleanup programme. Environmental technologies and services offer AGRA companies good opportunities for growth in the '90s.



Alexandra Gabowicz performs a lactose determination on specialty food products for Research Foods Limited.

Food and Pharmaceuticals Group

Specialty food product manufacturer *Research Foods* has once again achieved the efficiencies needed to raise margins to reasonable levels. Sales have been strong, but operating costs and increased research and development have had an impact on earnings.

Product lines have been adjusted to take advantage of the post-free trade market environment. Negotiations are under way with a major manufacturer of specialty foods in Italy for exclusive rights to a new line of sauce products with high volume potential aimed at the food service industry.

Performance of the *Dixie Lee* corporate owned fried chicken and seafood restaurants has been disappointing. Franchised operations, however, have improved performance steadily throughout the year. New franchise inquiries have increased.

Health care/pharmaceutical manufacturing and distribution company *Viaguard Pharmaceuticals* has been recently reorganized with new management and is positioned for steady development over the next fiscal period. The product mix has been rationalized and more aggressive marketing plans have been implemented. New products will include cold sterilizing and disinfecting solutions for medical instruments and a line of sterile lubricating gels.

Late in 1987, recycling company *Contain-A-Way* began to establish recycling depots for beverage containers throughout the state of California in order to take advantage of changes in California recycling law. Commercial operations began in April, 1988 under the name of "20/20 Recycle Centers". At startup, operating costs and losses were extremely high. This was made worse by state legislation which provided inadequate financial assistance. The legislation was improved by late 1988, but the changes did not take effect until the latter part of our fiscal year 1989.

Quality and efficiency in our operations have been considerably improved. The break-even point was almost within reach at year end, helped significantly by legislative reforms. 20/20 Recycle Centers plans to become profitable in calendar 1990 and recent amendments to recycling legislation will further accelerate this trend.



The attendant at a 20/20 Recycle Centers redemption depot prepares to receive beverage containers from a California customer. After redemption, the containers will be separated and placed in the bell-shaped 'igloos' for pickup and delivery to a processing centre.



The Village of Britannia slips into a tropical evening on Grand Cayman Island. Created by Ellesmere Developments Limited, this premier resort community includes a Hyatt Regency hotel, a unique golf course, a marina, watersports facilities, and 38 acres of private luxury homes.

Asset Development and Investments Group

The Village of Britannia, created by *Ellesmere Developments*, is the premier resort development on Grand Cayman Island. It includes a first class hotel managed by Hyatt, the only golf course on the island, marina and watersports facilities and 38 acres of luxury condominiums and patio homes. Phase I of the housing development, consisting of 53 villas, has been completed and sold. The first stage of Phase II, consisting of 24 units will commence construction early in calendar year 1990.

Hotel operations produced disappointing results for fiscal 1989 due to a chain of events. Remedial work by the contractor caused disruption during the summer of 1988. Hurricane Gilbert struck the island in September and the psychological effect of hurricane publicity on potential visitors caused severe occupancy reduction over the balance of the year. A strike at Eastern Airlines in the early months of 1989 cut off a major transportation link to the island during peak season.

The Village of Britannia is showing a steady performance improvement, although losses such as those incurred during the traditionally 'low' summer season of 1989 must still be expected.

Alders International, Canada's largest duty free operator now has eight shops, located in Calgary, Vancouver and Toronto Airports and a 10,000 square foot store in downtown Vancouver geared primarily to Japanese tourists. Growth in sales and profit far outpaced the retail industry average. Shop improvements and airline passenger increases pushed 1989 results beyond expected levels.

As a result of the Vancouver contract extension to October, 1995 it was possible to begin work on new, expanded stores. The first opened on July 20, 1989 with almost triple the space of the original store. A new outlet is scheduled to open in Toronto by Christmas, 1989.

W T McMullen & Associates maintained its steady performance, reducing debt while carrying out a programme of controlled growth. Since its creation, this company has surpassed expectations in its growth and development, while offering risk management services for AGRA's diverse interests.



A congenial salesperson greets customers in the new Vancouver outlet of *Alders International*, Canada's largest duty-free operator. This is the first of a series of new, expanded facilities slated to replace the original shops built in 1985.

Financial Review

Operating Results

Consolidated

Consolidated revenue increased to \$247,088,655 from \$231,116,392 last year. Net earnings for the year reached \$56,799,544 (\$3.90 per share based on 14,561,120 shares outstanding) after extraordinary and unusual items, compared to \$7,774,850 (58 cents per share based on 13,376,952 shares outstanding) last year. The results for the year include net extraordinary gains of \$63,117,736 (\$4.33 per share) compared to an extraordinary gain of \$1,650,611 (12 cents per share) last year.

The most significant extraordinary item arose from an agreement reached at year-end to sell our shares of Cybermedix Inc., which produced a gain of \$71,032,802 after provision for income taxes of \$36,593,432. This gain was reduced by net extraordinary losses of \$7,915,066 as a result of disposal or closure of unprofitable operations together with recognition of loss of value of certain investments. This includes a loss of \$4,808,888 recorded by Ellesmere Developments Ltd. from the write-down of its equity interest to net book value in the Cayman Island Project.

In addition, an unusual loss of \$7,183,023, before income tax recovery, was recorded during the year as a result of revaluing our investment in recycling operations in California. Revenues produced by the operation have shown less growth than anticipated and therefore our investment was reduced by writing off the deferred charges which we had originally planned to amortize over five years.

Engineering, Construction and Technology

Revenues produced by this group increased to \$140,529,000, from \$128,019,000 last year. Canadian revenues increased by 20 percent to \$105,524,000 from \$88,126,000 last year, however U.S. revenues declined to \$35,005,000 from \$39,893,000.

Net earnings for the group decreased to \$1,063,000 from \$3,009,000 the previous year. U.S. operations produced a loss of \$510,000 compared to a profit of \$1,311,000 last year due to very competitive bidding in the construction industry,

which affected both revenue and profit margins. In addition to the loss from on-going operations, losses of \$1,286,000 were produced from the shutdown of unprofitable construction operations in the U.S. However, net earnings from Canadian operations increased sharply to \$2,859,000 from \$1,698,000 last year.

Food and Pharmaceuticals

Total revenues for this group remained steady at \$37,485,000 compared to \$37,208,000 last year. Revenues from Canadian operations however, fell to \$20,662,000 from \$32,345,000 last year due to the sale of W.J. Lafave at the end of the previous year. The remaining Canadian operations produced a modest increase in revenues for the year. Revenues from U.S. operations increased sharply in the current year to \$16,823,000 from \$4,863,000 last year due to the full year of operation of the recycling system in California which commenced operations late in the previous year.

Net earnings from Canadian operations of the Food & Pharmaceuticals Group increased to \$330,000 from \$56,000 last year. However, extraordinary losses from discontinued operations reduced net earnings to \$44,000 for the year. Losses from U.S. operations increased to \$10,156,000 from \$2,447,000 as a result of an unusual write-down of \$4,710,000 (after tax) in our investment in the recycling operation, the inclusion of the first full fiscal year of operations, and delays encountered in effecting corrective legislation which depressed current year results. This operation is expected to break even and become profitable during the next fiscal year.

Asset Development and Investments

Revenues of this group increased to \$69,075,000 from \$65,889,000 last year. Net earnings before extraordinary items fell to \$1,159,000 from \$5,506,000 the previous year, primarily as a result of the losses incurred by Ellesmere Developments in the Cayman resort operations. The resort operations were adversely affected by Hurricane Gilbert and a major strike at Eastern Airlines. With these problems behind us we are expecting a much improved winter season for the hotel and the resumption of condominium sales in our Phase Two development.

Extraordinary gains of \$64,690,000 raised total earnings for the group to \$65,849,000 this year, compared to \$7,934,000 last year which included extraordinary gains of \$2,428,000. The extraordinary gain this year arose primarily from the sale of our 53 percent interest in Cybermedix on July 7, 1989. While we will no longer have Cybermedix as a source of earnings we will have the proceeds of the sale available with which to build other sources of income.

Financial Position

Current assets at year-end included a receivable of \$105,398,071 arising from the sale of our Cybermedix shares, while current liabilities included taxes payable as a result of the gain. The cash proceeds from this sale were received subsequent to year-end and this allowed us to retire a substantial amount of company debt early in the new year.

AGRA has emerged from a difficult operating year with the strongest financial position in our entire history. Working capital reached \$105,323,642 at year-end compared to \$39,287,707 last year. Total assets have increased by 51 percent to \$302,978,470 from \$200,348,815 last year. Shareholders' equity has increased to \$159,015,269 from \$103,581,249 in the previous year. We certainly have a solid foundation from which to accelerate our rate of internal growth and to seriously consider new acquisitions in the future.



R.G. Dittmer
Executive Vice-President

Auditors' Report

To the Shareholders of
Agra Industries Limited:

We have examined the consolidated balance sheet of Agra Industries Limited as at July 31, 1989 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, 1989 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

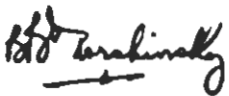
Chartered Accountants
September 22, 1989

Consolidated Balance Sheet

July 31, 1989	1989	1988
Assets		
Current		
Cash and short-term investments	\$ 8,059,112	10,049,780
Agreement receivable (Note 2)	105,398,071	-
Accounts receivable	42,286,049	41,313,672
Inventory and contracts in progress	31,793,056	26,193,040
Other (Note 3)	3,230,986	10,149,017
	190,767,274	87,705,509
Investments		
Non-consolidated entities (Note 4)	36,233,677	55,616,400
Other (Note 5)	32,599,015	3,608,093
	68,832,692	59,224,493
Fixed		
Land	3,703,264	3,724,655
Buildings	13,562,929	14,261,119
Equipment	50,130,829	44,921,050
	67,397,022	62,906,824
Less accumulated depreciation	27,959,306	23,161,004
	39,437,716	39,745,820
Other		
Excess cost of shares of subsidiaries acquired	3,940,788	3,967,065
Deferred charges (Note 11)	-	9,705,928
	3,940,788	13,672,993
	\$302,978,470	200,348,815

	1989	1988
Liabilities		
Current		
Bank indebtedness (Note 6)	\$ 18,177,132	14,207,291
Accounts payable	30,990,710	26,163,406
Income taxes payable	913,461	1,104,408
Current portion of long-term debt (Note 7)	7,146,321	4,831,726
	<u>57,227,624</u>	<u>46,306,831</u>
Deferred income taxes	28,216,008	2,110,971
	<u>85,443,632</u>	<u>48,417,802</u>
Long-term Debt (Note 7)	47,959,520	40,703,186
Deferred Income Taxes	4,714,515	1,390,301
	<u>138,117,667</u>	<u>90,511,289</u>
Minority Interest	5,845,534	6,256,277
Shareholders' Equity		
Share capital (Note 10)	40,637,464	39,374,706
Retained earnings	120,189,452	65,040,670
	<u>160,826,916</u>	<u>104,415,376</u>
Foreign currency translation adjustment	(1,811,647)	(834,127)
Total Shareholders' Equity	159,015,269	103,581,249
	<u>\$ 302,978,470</u>	<u>200,348,815</u>

On behalf of the Board:



B.B. Torchinsky
Director



A. Taylor
Director

**Consolidated Statement
of Earnings**

AGRA Industries Limited

Year ended July 31, 1989	1989	1988
Revenue (Note 18)	\$ 247,088,655	231,116,392
Expenses		
Cost of sales and services, selling, general and administrative	223,634,249	208,765,360
Depreciation and amortization	6,630,152	5,441,659
Amortization of deferred charges	2,009,360	450,398
Interest on long-term debt	5,822,240	2,152,401
Other interest	1,600,845	914,273
	239,696,846	217,724,091
Earnings before the following Unusual item (Note 11)	7,391,809 (7,183,023)	13,392,301
	208,786	13,392,301
Income tax (recovery) (Note 13)		
Current	6,320,286	3,725,979
Deferred	(4,474,485)	2,752,086
	1,845,801	6,478,065
	(1,637,015)	6,914,236
Minority interest	(3,608,146)	(2,976,580)
Earnings (loss) of non-consolidated entities	(1,073,031)	2,086,583
Earnings (loss) before extraordinary items	(6,318,192)	6,124,239
Extraordinary items (Note 12)	63,117,736	1,650,611
Net earnings	\$ 56,799,544	7,774,850
Earnings (loss) per share (Notes 10 and 14)		
Before extraordinary items	\$ (.43)	.46
After extraordinary items	\$3.90	.58

**Consolidated Statement
of Retained Earnings**

Year ended July 31, 1989	1989	1988
Balance, beginning of year	\$ 65,040,670	58,776,101
Add: net earnings	56,799,544	7,774,850
	121,840,214	66,550,951
Less: dividends paid	1,650,762	1,510,281
Balance, end of year	\$120,189,452	65,040,670

**Consolidated Statement of
Changes in Cash Position**

AGRA Industries Limited

Year ended July 31, 1989	1989	1988
Cash provided by (used in)		
Operating activities		
Earnings (loss) before extraordinary items	\$ (6,318,192)	6,124,239
Items not affecting cash flow	8,273,899	8,571,950
Unusual item	7,183,023	
Decrease (increase) in non cash working capital		
Accounts receivable	(712,732)	(3,924,244)
Inventory and contracts in progress	(5,584,916)	(2,154,500)
Prepaid expenses	(474,433)	(335,412)
Accounts payable	4,235,568	1,116,965
Income taxes payable	(160,262)	(1,760,750)
	6,441,955	7,638,248
Extraordinary items	(1,217,233)	-
	5,224,722	7,638,248
Investing activities		
Purchase of fixed assets	(6,516,524)	(15,959,865)
Proceeds on disposal of fixed assets	847,215	917,227
Investment in non consolidated entities	(20,920,007)	(28,706,734)
Decrease (increase) in notes receivable	7,520,265	(6,948,285)
Acquisition of subsidiary operations	(1,398,470)	(772,872)
Proceeds from investments	1,151,263	9,083,770
Increase in deferred charges	-	(10,171,439)
	(19,316,258)	(52,558,198)
Proceeds on disposal of operations	2,654,041	7,661,093
	(16,662,217)	(44,897,105)
Financing activities		
Proceeds from long term debt	14,455,388	13,431,276
Retirement of long-term debt	(4,571,509)	(5,117,316)
Loan from non-consolidated entity	-	13,000,000
Issue of share capital and options	1,262,758	6,903,068
	11,146,637	28,217,028
Payment of dividends		
By the Company	(1,650,762)	(1,510,281)
By subsidiaries to minority shareholders	(4,018,889)	
	(5,669,651)	(1,510,281)
Decrease in cash	(5,960,509)	(10,552,110)
(Bank indebtedness) cash, beginning of year	(4,157,511)	6,394,599
Bank indebtedness, end of year	\$(10,118,020)	(4,157,511)
Represented by:		
Cash and short-term investments	\$ 8,059,112	10,049,780
Bank indebtedness	(18,177,132)	(14,207,291)
	\$(10,118,020)	(4,157,511)

Notes to Consolidated Financial Statements

July 31, 1989

AGRA Industries Limited

1. Summary of accounting policies

Basis of presentation

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 in which the Company has significant influence. Other investments are recorded at cost.

Inventory and contracts in progress

Inventory is 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 has been recorded in the accounts on a straight-line basis at annual rates of 2½% to 20% providing for amortization of the cost of buildings and equipment over their estimated useful lives.

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 adjustment

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 trans-

lated at average exchange rates. Gains and losses arising from the translation of the financial statements of the foreign operations are deferred in a "foreign currency translation adjustment" account in shareholders' equity.

2. Acquisitions and disposals

During the year, the Company acquired the following:

The assets and contracts to be completed of Pile Foundations ('79) Ltd. for \$230,000 cash and 131,184 Class B shares of the Company for a total consideration of \$1,150,000.

49% of the outstanding shares of Viaguard Pharmaceuticals Limited for \$988,000 cash.

The Company sold its interest in the CKO Radio Partnership to Cybermedix Inc. for \$3,975,000 consisting of \$975,000 cash and 308,994 Class B treasury shares of Cybermedix Inc. having a value of \$3,000,000.

On July 7, 1989, the Company entered into an agreement to sell its 53% interest in Cybermedix Inc. to Cogeco Inc. for total net proceeds of \$135,999,629. Subsequent to year-end, \$105,398,071 cash, 788,022 Subordinate Voting Shares and 3,940,114 Class B Preferred Shares of Cogeco Inc. having a value of \$30,601,558, were received in satisfaction of the agreement receivable.

3. Other current assets

	1989	1988
Prepaid expenses	\$ 2,219,223	1,356,918
Notes receivable	821,806	8,467,013
Loans to non-consolidated entities	189,957	325,086
	\$ 3,230,986	10,149,017

4. Investments in non-consolidated entities

	1989	1988
Ellesmere Developments Ltd. (Note 17)		
- equity	\$14,702,529	23,886,382
- loans	16,290,132	3,910,383
Carbovan Inc.	2,917,989	1,153,346
Other	2,323,027	1,442,089
Cybermedix Inc.	-	21,474,402
CKO Radio Partnership	-	3,749,798
	\$36,233,677	55,616,400

5. Other investments

	1989	1988
Agreement receivable (Note 2)	\$30,601,558	
Notes receivable - long-term portion	1,199,180	2,038,921
Other - at cost	798,277	1,569,172
	\$32,599,015	3,608,093

6. Bank indebtedness

	1989	1988
Bank loans	\$15,679,693	9,730,131
Cheques issued and uncashed	2,497,439	4,477,160
	\$18,177,132	14,207,291

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

	1989	1988
Mortgages, chattel mortgages and obligations under capital lease with interest rates averaging 11.5% (maturity dates to 1999)	\$ 3,673,266	3,381,886
Notes, agreements and loans payable with average interest rates at prime and secured by certain assets (maturity dates to 1998)	38,089,575	28,778,026
Note payable to non-consolidated entity, unsecured, with interest payable annually at prime plus 7/8% (no fixed repayment terms)	13,000,000	13,000,000
	54,762,841	45,159,912
Less current portion	7,146,321	4,831,726
	47,616,520	40,328,186
6 1/2% Convertible Subordinated Debentures	343,000	375,000
	\$47,959,520	40,703,186

Principal payments for the five succeeding years are: \$7,146,321; \$6,051,887; \$18,354,300; \$5,239,885 and \$952,385.

Included in total long-term debt is \$12,063,826 (1988 - \$12,505,802) repayable in U.S. funds.

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 153.846 Class A shares and 153.846 Class B shares per \$1,000 principal amount of debentures, equivalent to a conversion price of \$3.25 per Class A share and \$3.25 per Class B share.