# AGRA INDUSTRIES LIMITED



AGRA

## 1990 ANNUAL REPORT

AGRA Industries Limited offers a growing range of services for environmental protection, monitoring and cleanup. As an expression of our commitment, AGRA has chosen to make extensive use of environmentally sound materials in the 1990 Annual Report.

The cover and financial statements of this publication are printed on *Passport Tale*, a textured, uncoated stock containing recycled fibres. To achieve good photographic reproduction, the 'Chairman's Report', 'President's Address' and 'Group descriptions' are printed on *Apollo High Gloss*. This glossy, 'environmentally friendly' stock is composed of straw fibres, rather than wood, and is bleached without the use of acids to avoid the toxic byproducts of conventional papermaking processes.

# COMPANY PROFILE

AGRA Industries Limited is a diversified Canadian company dedicated to growth and enhancement of shareholders' value through the application of professional management to key opportunities in engineering, advanced technology, new products and processes, niche manufacturing and contracting.

We are committed to our employees, to our clients, to society and to our environment. We encourage innovation, professional excellence and the highest standards of business practice in all our endeavors.

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# CORPORATE HIGHLIGHTS

| | 1990 | 1989 |
|---|---|---|
| **Operations** | | |
| Revenue | **$274,715,001** | $247,088,655 |
| Net earnings | **1,187,619** | 56,799,544 |
| **Per Share** | | |
| Net earnings | | |
| Before extraordinary items | **.33** | (.43) |
| After extraordinary items | **.07** | 3.90 |
| Fully diluted earnings | | |
| Before extraordinary items | **.33** | (.43) |
| After extraordinary items | **.07** | 3.04 |
| Dividends – Class A | **.10** | .10 |
| – Class B | **.12** | .12 |
| Equity | **9.88** | 10.82 |
| **Other** | | |
| Average shares outstanding | **16,333,238** | 14,561,120 |
| Shareholders equity | **$175,114,895** | $159,015,269 |
| Working capital | **$ 32,128,165** | $105,323,642 |

| **Revenue** | **1990** | 1989 |
|---|---|---|
| Engineering, Construction & Technology | **$156,699,967** | $140,528,787 |
| Foods & Container Recycling | **41,225,922** | 37,484,791 |
| Asset Development & Investments | **76,789,112** | 69,075,077 |
| | **$274,715,001** | $247,088,655 |

| **Earnings Before Extraordinary Items** | **1990** | 1989 |
|---|---|---|
| Engineering, Construction & Technology | **$ 3,611,450** | $ 2,349,290 |
| Foods & Container Recycling | **(3,294,313)** | (9,826,127) |
| Asset Development & Investments | **5,045,838** | 1,158,645 |
| | **$ 5,362,975** | $ (6,318,192) |

# CHAIRMAN'S REPORT

***B. B. Torchinsky***
***Chairman***
***of the Board***

Fiscal 1990 proved to be a year of transition, during which new management settled into the company and familiarized themselves with the extent and diversity of our operations. At the same time, our staff was given ample time and opportunity to become acquainted with their new president and his management approach. The familiarization process was conducted slowly and carefully and I believe was all the more successful for that.

It was also a busy year. Total sales surged substantially ahead of all records set in past years and operating results once again became positive. We were particularly pleased with the results from our Britannia resort project in Grand Cayman which has been growing and maturing rapidly during the past year, not only during the "high" season, but even during the normally slower summer season.

During the year, a few disappointing operations were terminated and several new acquisitions were either completed or initiated and will be finalized early in the new fiscal year. In these activities we remained faithful to the principle expressed by our new president "to direct our resources towards those operations which demonstrate the best performance". These have been generally in the engineering sector and primarily in the consulting division. We plan to extend our geotechnical and engineering activities (which are already well established and producing satisfactorily) into new geographical areas with special emphasis on developing environmental testing services, which is a major growth direction for this profession.

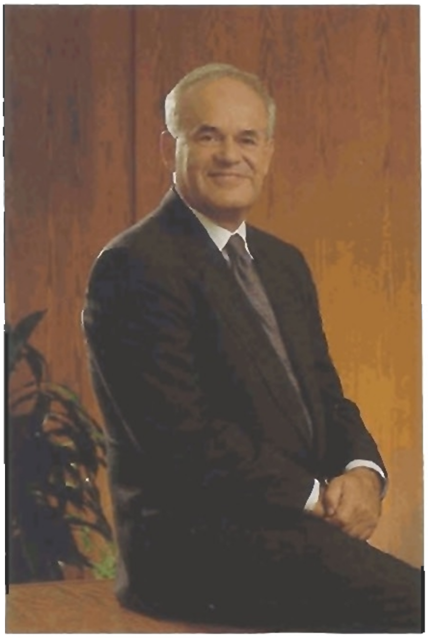
Throughout the hectic decade of the 1980's, many major infrastructure segments in Canada and the United States were seriously neglected. For example, in many cases the maintenance of existing highway systems and power generating plants, as well as the construction of new facilities to accommodate increasing and shifting population demographics were ignored completely. We want to capitalize on the extensive engineering services which will be required over the next decade to address the rapidly decaying transportation infrastructure and the growing shortage of electrical generating capacities developing as a result of this earlier neglect. Several of our recent acquisitions will help us in these goals.

AGRA is in an excellent position to take advantage of increasing demands for specialized engineering services and environmental concerns in the future. We look forward to doing our share to make the world a better place, while at the same time making AGRA profitable for our investors.

B. B. Torchinsky

**B. B. Torchinsky** December 1990

# PRESIDENT'S ADDRESS



***Alex. Taylor***
***President***

Overall revenues increased by 11% in 1990 with the Engineering, Construction and Technology sector attaining 12% growth. Very importantly, profits from operations returned to the positive and, though not yet up to an acceptable level, are now trending towards the objectives we have set for the next few years.

Towards this end, a number of units were closed down or disposed of during 1990 following a plan to concentrate our resources where we saw the greatest opportunities. At the same time, a number of strategic acquisitions were made following the same planned objectives. We also increased our ownership from 50% to 80% of a key AGRA company of the future, Vadeko International Inc., engaged in systems integration for the aerospace and vacuum deposition markets.

New acquisitions included AGRA Recycling (100%) in Edmonton, the only operation in western Canada which reprocesses plastic soft drink bottles into new raw material and finished products, Rittenhouse-Zeman & Associates, Inc. (100%) headquartered in Seattle, a major supplier of environmental and geotechnical engineering consulting services in northwestern U.S.A. and Alaska; Canuck GIE Engineering Ltd. (75%) in Calgary which specializes in pipeline engineering and is currently conducting projects in North Africa, Tanzania, Thailand and Hungary; and Seacore Ltd. (50%) of the United Kingdom which specializes in offshore marine drilling in Europe and around the world. Subsequent to year end, we acquired Northern Engineering Inc. (100%) of Houston, Texas which supplies engineering services in gas turbine cogeneration plants, natural gas pipelines and compressor stations.

The profit from ongoing operations was negatively affected by both high interest rates and the high Canadian dollar, the former impacting our construction group and the latter several of our Canadian manufacturing units in the Engineering and Food sectors which have major markets in the U.S.A. A major drag on our earnings continues to be our beverage container recycling operation in California, but a combination of management changes, a new strategy and improved new legislation by the California state government to encourage recycling must result in improved performance during 1991. Our vanadium extraction plant at Fort McMurray has undergone a very difficult startup, supplying product into a market where prices are depressed by the recession in the world steel market. Our objective for 1991 is to mature the plant operations to where we can produce below current prevailing prices.

The Britannia resort project in Grand Cayman achieved hotel room occupancies of over 90% throughout the entire winter season and continued substantially higher than expected even through the normally slow summer months. The hotel and total resort are rapidly maturing into a first class operation. During the year we bought out units of the Cayman Hotel & Golf Club Partnership, increasing our interest to 97%. Construction of Phase II of our Britannia condominium development, consisting of 54 units, commenced last January and the first units will be ready for occupancy in early 1991.

Good operating performance from other AGRA units and our low level of debt have compensated for the problem areas in 1990. The strategy of concentrating and in some cases redeploying our assets will continue into 1991. We expect a surge in our revenues together with an improved profit and increased significance in our major market sectors.

**Alex. Taylor**

December 1990

***Board of Directors***

*Left to right.*

***A. Z. Torchinsky***
*Vancouver*

***A. Golumbia***
*Vancouver*

***B. B. Torchinsky***
*Toronto*

***H. Tenenbaum***
*Toronto*

***F. D. McCarthy***
*Edmonton*

***E. J. Kernoghan***
*Toronto*

***R. G. Dittmer***
*Saskatoon*

***A. Taylor***
*Mississauga*

***R. L. Torchinsky***
*Vancouver*

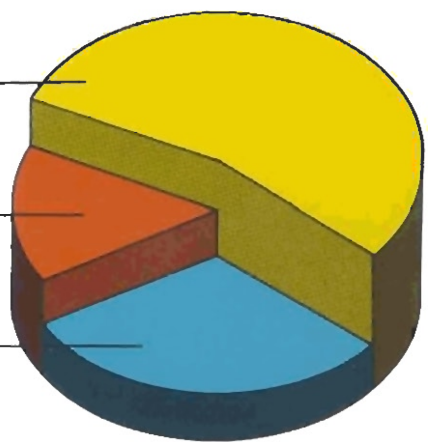
***C. Roles***
*Saskatoon*

**Areas of Activity, 1990 (by revenue)**

Engineering, Construction & Technology **57%**

Foods & Container Recycling **15%**

Asset Development & Investments **28%**



# ENGINEERING, CONSTRUCTION & TECHNOLOGY

***Located in a prominent area of Washington D.C., the Georgetown University Law Center owes its attractive facade to architectural precast panels produced by Beer Precast Concrete. The light sandblast finish creates the appearance of natural limestone.***

*Cambrian Engineering Limited* completed fabrication and shipment of two **campro** deodorizer/refiner units with ancillaries to Nantong and Sheyang, China. This project represents two years of marketing and development work introducing **campro** to the Chinese market. This year also saw the completion of the first **campro** deodorizer fabricated by Cambrian's joint venture company in India.

*Cambrian* successfully licensed a cyanide recovery technology which removes and recovers cyanide from gold mill effluent for re-use and reduces environmental contamination. Basic systems engineering has been completed for one major Canadian gold producer on the first commercial installation.

Involvement in the pharmaceutical industry continues with a contract for project management and process engineering for the new manufacturing facilities of Trimel Life Sciences, located in Steinbach Manitoba.

Engineering design work by *Canadian International Power Services (CI Power)* progressed on the 300 MW Shand lignite-fired power plant for SaskPower Corp. Construction was started on a new diesel unit and a gas turbine unit for Barbados Light & Power Corp. Hydroelectric plant studies proceeded in Belize, Jamaica and Bolivia. Engineering was initiated for an addition to the Cuticucho Power Plant of Compañia Boliviana de Energia Electrica S.A.

The Venezuelan affiliate of *CI Power, Consultores Occidentales S.A. (COSA)*, continued to expand and at year end, had over 600 employees. The majority of *COSA's* work is in the petroleum and petrochemical sectors. *CI Power* owns 20% of this company.

Since year end, *CI Power* has signed major contracts for work in Nicaragua and Belize. Prospects are also good for an extension of their contract in Guyana.

*Hardy BBT* achieved excellent results with an overall growth of 20 percent. Most of this substantial growth came in the area of environmental services and international projects. Major Canadian projects include the Vancouver Island Gas Pipeline, which involves laying a pipeline across Georgia Strait, and the environmental assessment of Dewline sites across northern Canada for the Department of National Defense. Long-term geotechnical contracts for pipeline projects were initiated in Tanzania and Thailand. Major geotechnical work was also done for Husky Oil on the Bi-Provincial Heavy Oil Upgrader under construction in Saskatchewan at Lloydminster.

*Hardy BBT* has organized itself to be one of Canada's premier environmental companies, capable of providing environmental services in air, water, hazardous wastes, remediation, land fill, etc. *Hardy* also operates chemistry labs for air and water quality testing.

*Moore & Taber* of Anaheim, California, geotechnical and environmental consultants, continued to increase its activities on major sanitary landfill projects. Increased emphasis on environmental services and a number of investigations for major structures on the proposed toll road system in Orange County, California, highlighted the year.

Recently acquired *Canuck GIE Engineering* of Calgary, Alberta is one of the few Canadian companies specializing in the engineering and construction management of pipeline systems and related facilities. AGRA expects that synergy will develop between *Canuck* and other AGRA engineering companies. *Hardy BBT* and *Canuck* are already bidding jointly for pipeline projects in Tanzania and Thailand.

*Canuck* was awarded a major pipeline project in the Middle East and further work is expected in that area as well as other areas of the world as oil prices remain high. A penetration was made into Europe, when *Canuck* was awarded the feasibility study of a gas pipeline in Hungary by the World Bank.

*Design Engineer Terry Sharp of Vadeko International makes adjustments to the Z-carriage assembly of the Automated Preparation and Paint Application System (APPA) The assembly shown will be used to paint large commercial and military transport aircraft for MacDonnell Douglas Aircraft of Long Beach, California. When completed and installed in its aircraft painting facility, the APPA will be the world's largest robotic painting system.*

*The Shand Power station near Estevan, Saskatchewan is on schedule for completion in 1992. CI Power performed engineering design work on the 300 MW lignite-fired plant in a joint venture for SaskPower.*

*Northern Engineering*, recently acquired by AGRA, provides consulting, engineering, design, project management services and complete turnkey installations for the energy, process, cogeneration and power industries. Headquarters are in Houston Texas, with additional field offices in League City, Texas and Teesside in the United Kingdom.

*Northern's* recent emphasis has been on natural gas fired combined cycle cogeneration facilities. A notable project now underway includes detailed engineering and design for a 1725 MW cogeneration plant, one of the world's largest, located in the U.K. In addition, *Northern* has worked on natural gas pipelines, compressor stations and metering facilities in the U.S.

in the U.S.

*Rittenhouse-Zeman & Associates (RZA)* is a consulting engineering firm, recently acquired by AGRA, specializing in earth and environmental sciences. Founded in 1973, *RZA* is located in Anchorage, Alaska; Bellevue, Washington and Portland, Oregon. Environmental services, including landfill consulting, is one of their largest and fastest growing market areas. Recently, *RZA* carried out exploration, design and construction monitoring services on eleven separate landfill projects in Washington, Idaho and Hawaii.

*Sergent, Hauskins & Beckwith* had record-setting revenues in fiscal '90, an increase of 24%. A key project in this performance was the geotechnical and environmental investigation carried out for the proposed Kern River Natural Gas Pipeline from Wyoming to southern California. The firm continued to increase its activities in the field of environmental services.

*Torchinsky Engineering* maintained its growth rate with the increased market for secondary road construction in Alberta. Similar projects in Saskatchewan were not as plentiful in 1990, due to the tighter economy in that province.

Husky Oil retained *Torchinsky Engineering* to provide control surveying and contractor layout monitoring for the Bi-Provincial Heavy Oil Upgrader in Saskatchewan. The company is also providing design and supervision for the construction and asphalt surfacing of all access roads to the site.

In July 1990 AGRA increased its holdings in *Vadeko International* from 50% to 80% in a move to expand in the systems integration, assembly and test engineering business. The Bank of Canada released its new $50 bill to general circulation featuring the innovative optical thin film security device developed by *Vadeko*. The company negotiated a new engineering and facilities operations contract with the Bank of Canada for production of the device and delivered the first set of optical monitors used to control thin film production.

McDonnell Douglas Aircraft in Long Beach California awarded *Vadeko* a contract to build the largest robotic painting system in the world. The system will paint large military and commercial aircraft. *Vadeko* is completing integration of the first unit for acceptance testing in December 1990.

*Vadeko's* investment in the development of robotic production systems for solid fuel rocket motors has resulted in negotiations on a large contract for robotic systems to be used in the new NASA space shuttle rocket motor facility being built in Yellow Creek, Mississippi. Preliminary work is proceeding on an initial award and the full contract is anticipated early in 1991.

During the last quarter of the fiscal year, AGRA purchased a 50% interest in *Seacore*, a U.K. firm specializing in maritime drilling. *Seacore* has successfully completed test drilling projects throughout the world since their incorporation ten years ago. With input from AGRA's various foundation companies, we look forward to *Seacore* becoming foundation specialists in the U.K. and abroad.

*The M.V. 'Bon Venture' performs offshore geotechnical site investigation in the Italian Adriatic for U.K.-based Seacore. The marine drilling and core sampling firm drilled boreholes at Ravenna, Ancona and Crotone in water from 20 to 120 meters, despite the hazards of difficult weather, high-pressure shallow gas and nearby underwater pipelines.*

Even though the U.S.A. operations were consolidated with the closing of the Phoenix and Salt Lake City offices, *Western Caissons'* revenues in total (Canada and U.S.A.) were up because of two major contracts awarded to its U.S. subsidiary *Frontier Foundations*. The highlights of fiscal '90 included an $8 Million contract for a new highway viaduct in Hawaii, foundation piles for two major casinos in Laughlin, Nevada, the Shand Power Plant and the Saferco Fertilizer Plant, both in Saskatchewan, foundations for the Nesté Oy refinery in Edmonton, and the completion of over 6000 grout holes on the Oldman River Dam in Southern Alberta.

The Winnipeg office reported a very satisfactory year. Major projects include the successful installation of foundations for the North Kildonan Bridge, finished approximately one month ahead of schedule.

During the year, *Beck Drilling & Environmental Services*, another division of *Western Caissons*, started operations in the environmental drilling field. *Western Caissons* intends to be one of the leaders in the emerging environmental and waste management fields.

*Coast Steel Fabricators* of Vancouver, British Columbia experienced the most successful year in its entire history. There was a high level of activity in the pulp and paper industry and the proximity of our plant to water for shipping materials to work sites gave *Coast Steel* a significant advantage over the competition.

In addition to gaining a reputation as experts in designing and manufacturing enclosures for optical telescopes, *Coast Steel* has recently developed a design for a portable antenna for radio astronomy, satellite communications and tracking systems.

# FOODS & CONTAINER RECYCLING

*A loader fills the hopper of a baling machine with sorted beverage containers at the 20/20 Recycle Centers regional processing facility in Hayward, California.*

*Interim General Manager for AGRA Recycling Keith Harradence (centre) stands with product managers Ernie Kirkwood (left) and Tracy Deslaurier (right) in front of their plastic extrusion machine. The machine uses recycled plastic to make high-quality plastic sheet.*

1990 was a year of major change for *Research Foods*. Increasing competition and cost pressures have led to a consolidation of operations and a review of the direction of the company. The *Dixie Lee* restaurant franchise will be merged with another fast food chain in which the company will retain a 50% interest. This consolidation will lead to improved returns for *Research Foods* and move day to day management closer to operations. Our interest in *Vanguard Pharmaceuticals* has been disposed of. While this operation had shown good potential, the time and costs of developing that potential did not coincide with *Research Foods'* plans.

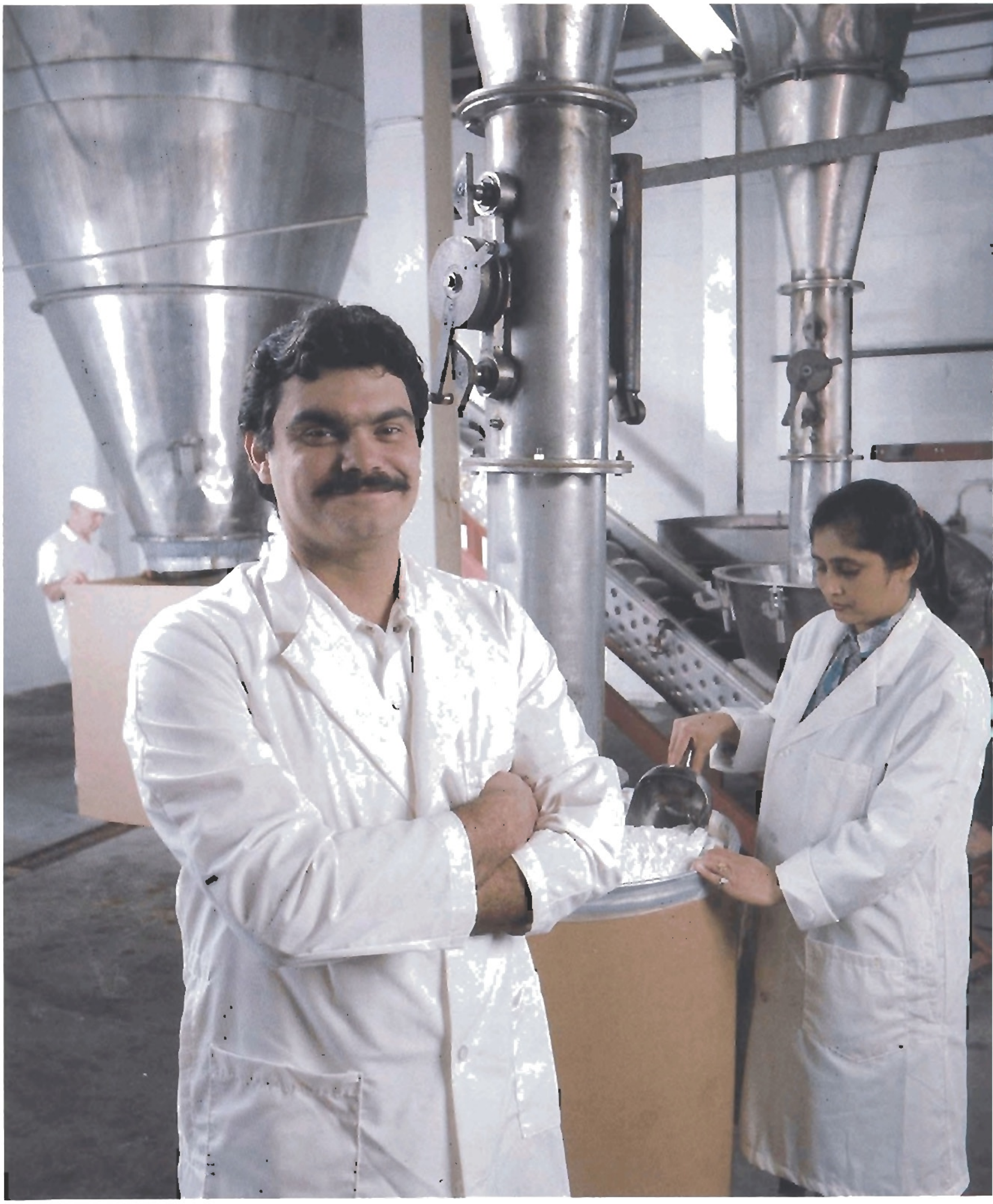
*Research Foods* is now concentrating on its core business of specialty products for the snack and convenience food industry and is expanding its role in the importation and distribution of selected food ingredients and products. Bottom line profitability is a serious concern because of greatly increased competition in the Canadian market, but is being countered by improved operating efficiencies and increased product development.

Working closely with retailers, environmentalists and the California legislature, recycling company *20/20 Recycle Centers* of California contributed significantly to the development of the state's two newly enacted recycling laws. The Integrated Waste Management and Recycling Act requires that, of the state's 40 million tons of waste generated annually, 50% must be diverted from landfill. *20/20* is well positioned to take advantage of the tremendous recycling opportunity which this law mandates. The second of these laws increases funding to state certified beverage container recycling centers. *20/20* operates several hundred certified centers throughout the state, and will benefit greatly from the increased funding.

During the past year, operating under the name of *BEVCON Processors*, regional materials processing centers were established in the cities of Hayward, Sacramento and Corona. Here, aluminum, plastic and glass beverage containers are sorted, baled and crushed for sale to remanufacturing facilities. *BEVCON* and *20/20* are further served by *Contain-A-Way Services*, the company's transportation operation. Increased state funding, together with improved operating efficiencies should lead to profitable operations in 1991.

AGRA recently acquired the assets of the Applied Polymer Group (APG), and renamed it *AGRA Recycling*. This company was originally established in 1983 as the only operation in western Canada recycling the polyethylene terephthalate (PET) plastic used in soft drink bottles. Since 1986, the company has recycled used plastic bottles into PET flake material for sale to other manufacturers of plastic products. The company also manufactures such value-added plastic products as plastic sheet and horticultural trays. *AGRA Recycling* obtains its plastic bottles from *Contain-A-Way*, a wholly-owned subsidiary of AGRA which has operated in Alberta since 1973. *Contain-A-Way* collects glass, aluminum and plastic beverage containers for recycling.

By adding *AGRA Recycling* to its portfolio of recycling companies, AGRA has established a vertically integrated operation for collection, recycling and reprocessing of waste plastic. Some scrap plastic may also be used in the future by another wholly-owned subsidiary of AGRA, specialty bottle manufacturer *AGRA Plastics* located in Mississauga, Ontario.



*A spray drying facility frames Research Foods employees Joseph Gregoris (foreground), Veena Sibal (right) and Tom Arthur (background). Spray drying equipment plays a key role in the manufacture of Research Foods' specialty products for the snack and convenience food industries.*

# ASSET DEVELOPMENT & INVESTMENTS

Revenues for duty-free operator *Allders International* again exceeded the average rate of growth for Canadian retailers. Operations continue in Vancouver, Toronto and Calgary. New developments include a 4000 sq. ft. shop at the Vancouver airport, to be opened in 1991. Although Allders was not awarded the contract for the duty-free shop in Toronto's new Terminal 3, they were awarded a 'duty-paid' retail outlet in a high-traffic area in the new terminal building. Existing contracts for Toronto Terminals 1 and 2 were further extended to the end of 1991 and possibly through 1992.

Construction of the *Carbovan* plant in Fort McMurray was completed during the year. Commissioning and initial operations of the plant encountered many difficulties due to the developmental nature of the innovative extraction process, exacerbated by last summer's temporary shortage of flyash feedstock. Vanadium has been produced to specification and delivered to a U.S. customer but not yet in sufficient quantities to ensure commercial success.

World prices for vanadium, used in production of high-strength steel and other specialty alloys, have fallen dramatically in the last year following the recession in the steel industries and the consequent world vanadium oversupply. Our goal for the immediate future is to reduce manufacturing costs sufficiently to compete at the current low world price levels.

The *Village of Britannia* continues to be the prime development on Grand Cayman Island against which all other resorts are measured. Anchored by the Hyatt Regency Four-Star Hotel, the resort includes the only golf course on the island along with a marina and water sports centre. Facilities were recently completed to house an upscale jeweller, hair stylist, island casual haberdashery and a one-hour photo shop in addition to the present Red Sail diving, gift and sundry shops. Much higher occupancies during fiscal 1990 allowed the hotel to achieve better margins in the rooms division and throughout the food and beverage outlets. There are now five airlines providing regular scheduled flights to the island and this increased level of service certainly helped the hotel's occupancy in 1990.

Phase II of the adjacent *Britannia* condominium development is on schedule with the first stage of construction which includes all site services, dockage, central pool and recreation area.

*W. F. McMullen & Associates* is a general insurance brokerage firm which offers risk management services for AGRA's diverse interests, and for other customers. The company has shown continuous growth since its inception about six years ago, through normal internal growth and by acquisitions. AGRA anticipates continued stability and growth in the future for this company.

***An artist's concept shows the design of Phase II of the Village of Britannia condominium development on Grand Cayman. The luxury units will be constructed adjacent to Phase I, already completed and sold out.***

*Allders International salespersons Makiko Higachi (left) and Shinobu Chiba (centre) converse with Brent MacDonald, Allders' Airport Operations Manager for the Vancouver International Airport. The store, Allders' newest, offers duty-free luxury goods to overseas travellers.*

*Remediation activities are in progress at the Durango uranium processing site in southern Colorado, one of 24 low-level radioactive sites identified by the U.S. Dept. of Energy for contamination characterization and remedial action. Sergent, Hauskins & Beckwith are part of the engineering team carrying out the $100 million environmental project.*

# MANAGEMENT DISCUSSION & ANALYSIS

This discussion and analysis of the results of operations and financial position should be read in conjunction with the consolidated financial statements and related notes, as well as other management reports contained in this annual report.

## RESULTS OF OPERATIONS

### Consolidated

Operations in fiscal 1990 were characterized by growth of revenues in continuing operations, much improved operating results and significant progress in responding to changing market conditions. Decisions were made to discontinue or scale down some operations where it was determined that business conditions were unlikely to improve. Reduction of losses in this manner, while costly to undertake, will have a positive effect on operating profits in future years. It will allow financial and management resources to be directed toward improvement and expansion of our existing profitable operations as well as additional growth of the Company through acquisitions.

Consolidated revenues increased during the year to $274,715,000 from $247,089,000 in the previous year. Revenues excluding discontinued operations were $267,888,000 in 1990 and $233,448,000 in 1989, showing growth of 15 percent during the year.

Consolidated operating results before extraordinary items improved significantly, to a profit of $5,363,000 this year from a loss of $6,318,000 last year. Extraordinary items affected both years, resulting in final net profits of $1,188,000 this year and $56,800,000 last year. Operations discontinued or sold affected earnings before extraordinary items prior to their sale or discontinuance with operating losses of $25,000 and $1,622,000 in 1990 and 1989 respectively. The Cybermedix group which was sold at the end of 1989, produced net earnings of $2,267,000 for AGRA in that year. Proceeds from this sale brought about a reduction of interest expense for fiscal 1990 which more than offset the loss of earnings from this operation as a result of the sale.

The outlook for 1991 and subsequent years will be affected by a number of factors. In addition to increases from continued internal growth, revenues will increase in 1991 from the acquisition of new companies. Reduction of losses and elimination of unprofitable operations together with new acquisitions will serve to improve the profitability of the Company in 1991 and beyond. The uncertainties associated with new ventures remain in the beverage container recycling operation in California and the new vanadium processing plant in Fort McMurray. A recession in North America would restrain the progress of some of our businesses, but should not seriously affect growth in the environment and energy sectors.

### Engineering, Construction & Technology

Revenues produced by continuing operations in this segment increased during the year to $149,873,000 from $126,889,000 last year. However, net income in the continuing operations decreased to $3,420,000 from $3,900,000 last year, due to increasing competitive pressures.

During the third quarter, it was decided to discontinue our foundation construction operations in the northwestern United States and direct our efforts toward specialized contracts in North America and foreign markets, operating out of our established base in Canada. This process will be completed in the first half of fiscal 1991, thus ending the significant losses incurred by this operation in the U.S. market during the last two years.

The fibreglass coatings and manufacturing operation which has not produced profits for several years is being dismantled and sold, a process which commenced in the second half of fiscal 1990 and is near completion.

The acquisition of Canuck GIE in January 1990, Rittenhouse-Zeman in July and Northern Engineering in October will add approximately $25 million of revenues in fiscal 1991 and should add significantly to AGRA's earnings. Other acquisitions are under consideration in this group.

### Foods & Container Recycling

Revenues in this group increased to $41,226,000 from $37,485,000 last year, primarily as a result of growth in the beverage container recycling operation in California. An increase in the refundable deposit from one cent per container to 2½ cents per container about midway through our fiscal year produced a dramatic increase in the volume of containers recycled by the California public.

Losses generated by this group before extraordinary and unusual items decreased from $5,116,000 last year to $3,294,000 this year as a result of marginal improvements in each of the companies in the group.

Last year-end, an evaluation of the recycling operation in California resulted in an unusual write-down of $4,710,000 (after tax) in our investment in that operation. Restructuring the operation continued during the past year with closure of many low volume sites. This will result in a major reduction in overhead which together with increased state funding, will help make the operation profitable.

At year-end, the company began operating a recycling plant in Edmonton, Alberta which recycles plastic soft-drink bottles to produce plastic sheet suitable for use by ourselves and others in a wide variety of applications. Acquisition of this operation is another step toward management's objective of increasing involvement in waste management and environmental services in the 1990s.

**Asset Development & Investments**

Revenues in this group increased to $76,789,000 this year from $69,075,000 last year, while net earnings before extraordinary items improved to $5,046,000 from $1,159,000 last year. At year-end, AGRA achieved control of Ellesmere Developments and its subsidiaries and consolidated its balance sheet. Operations from that group will be consolidated by AGRA next year, adding approximately $30,000,000 of revenues. Net earnings will not be significantly affected by the consolidation since AGRA's share of the earnings or losses of Ellesmere have already been included in past years using the equity accounting method.

Occupancy and rate increases exceeded forecast at the Cayman Resort Hotel in fiscal 1990. While the project now operates in line with our expectations, the result still produces a low return on the total investment.

Sales at the Allders Duty Free shops increased 7% in 1990. Growth is not expected to continue at this rate in 1991 due to the openiug of Terminal Three at the Toronto Airport, which will impact on passenger traffic at the Allders' shops in Terminals One and Two. Leases for the concessions at Toronto Airport Terminals One and Two are subject to renewal within the next two years and Allders cannot be certain that it will retain these concessions on renewal.

## FINANCIAL CONDITION

Three significant events impacted the Balance Sheet of AGRA during the last two years: the sale of Cybermedix, the exercise of $20,063,000 of share purchase warrants and the consolidation of Ellesmere Developments.

The $105,398,000 cash generated by the sale of Cybermedix was used principally to retire consolidated debt, invest in non-consolidated entities in which debt was retired, and provide for payment of a related income tax liability.

The consolidation of Ellesmere Developments had the effect of reclassifying the previously reported net equity investment into its balance sheet components, principally the Cayman Island projects, which include the investment of $16,214,000 in the condominium project under development, fixed assets of $70,052,000 in the resort hotel and golf course and long-term debt of $25,570,000 related to the projects.

Investments include subordinate voting shares and Class B preferred shares of Cogeco Inc. at cost. The decline in their public market value is considered to be temporary, as in management's opinion the underlying net asset value, consisting of primarily cable television systems, is substantially higher than the present market value and our book value.

The Company's 50% interest in Carbovan Inc., the nearly completed vanadium extraction plant, is carried in the investment account at $4,843,000. In addition, AGRA has guaranteed certain of its indebtedness and will provide the additional funding required throughout the run-in period, which is expected to continue into the second quarter of fiscal 1991.

Investments also include 28 acres of prime land adjacent to the resort hotel and golf course on Grand Cayman, of which eight acres are currently under development with the first stage of exclusive condominiums and patio homes. This project will require up to US $10 million of financing during construction. The Company has advanced US $5 million cash to the project and will obtain additional financing from commercial sources.

**Liquidity and Capital Resources**

Cash flow from operations in fiscal 1991 and 1992 will be adequate to cover debt service, planned capital expenditures and normal growth. Cash flow generated by wholly owned subsidiary companies is generally available to AGRA, subject to usual banking requirements. Allders International (Canada) Limited, of which AGRA owns 51% of the shares, has distributed its available cash to its shareholders by way of dividends in each of the last two years.

AGRA and its subsidiary companies have adequate bank operating lines of credit and working capital for current and expected levels of operation. Our strong consolidated debt-to-equity ratio continues to improve, providing capacity to finance continuing growth in the future.

To the Shareholders of
AGRA Industries Limited:

We have examined the consolidated balance sheet of AGRA Industries Limited as at July 31, 1990 and July 31, 1989 and the consolidated statements of earnings, retained earnings and changes in cash position for the years 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, 1990 and July 31, 1989 and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding years.

Deloitte & Touche

Chartered Accountants
September 21, 1990

# CONSOLIDATED BALANCE SHEET

| July 31, 1990 | **1990** | 1989 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and short-term investments | **$ 10,189,301** | $ 8,059,112 |
| Accounts receivable | **63,826,192** | 42,286,049 |
| Inventory and contracts in progress | **32,086,380** | 31,793,056 |
| Agreement receivable | **–** | 105,398,071 |
| Prepaid expenses | **3,851,734** | 3,230,986 |
| | **139,953,607** | 190,767,274 |
| **Investments and Other** (Note 3) | **65,054,140** | 68,832,692 |
| **Fixed** | | |
| Land | **3,663,933** | 3,703,264 |
| Buildings | **14,346,965** | 13,562,929 |
| Equipment | **56,551,599** | 50,130,829 |
| | **74,562,497** | 67,397,022 |
| Less accumulated depreciation | **32,635,323** | 27,959,306 |
| | **41,927,174** | 39,437,716 |
| Resort hotel and golf course (Note 4) | **70,051,990** | – |
| | **111,979,164** | 39,437,716 |
| **Goodwill** | **6,912,223** | 3,940,788 |
| | **$323,899,134** | $302,978,470 |

| | 1990 | 1989 |
|---|---|---|
| **LIABILITIES** | | |
| **Current** | | |
| Bank indebtedness (Note 5) | $ 23,135,989 | $ 18,177,132 |
| Accounts payable | 45,213,634 | 30,990,710 |
| Income taxes payable | 24,292,122 | 913,461 |
| Current portion of long-term debt (Note 6) | 6,516,885 | 7,146,321 |
| Deferred income taxes | 8,666,812 | 28,216,008 |
| | 107,825,442 | 85,443,632 |
| **Long-term Debt** (Note 6) | 35,007,917 | 47,959,520 |
| **Deferred Income Taxes** | 2,264,234 | 4,714,515 |
| | 145,097,593 | 138,117,667 |
| **Minority Interest** | 3,686,646 | 5,845,534 |
| **SHAREHOLDERS' EQUITY** | | |
| **Share Capital** (Note 9) | 60,806,659 | 40,637,464 |
| **Retained Earnings** | 119,528,855 | 120,189,452 |
| | 180,335,514 | 160,826,916 |
| **Foreign Currency Translation Adjustment** | (5,220,619) | (1,811,647) |
| **Total Shareholders' Equity** | 175,114,895 | 159,015,269 |
| | $323,899,134 | $302,978,470 |

On behalf of the Board:

B.B. Torchinsky
Director

Alex Taylor
Director

# CONSOLIDATED STATEMENT OF EARNINGS

| Year ended July 31, 1990 | 1990 | 1989 |
|---|---|---|
| **Revenue** (Note 17) | **$274,715,001** | $247,088,655 |
| **Expenses** | | |
| Cost of sales and services, selling, general and administrative | **242,202,351** | 223,634,249 |
| Depreciation and amortization | **7,137,757** | 6,630,152 |
| Amortization of deferred charges | – | 2,009,360 |
| Interest on long-term debt | **3,882,376** | 5,822,240 |
| Other interest | **1,276,811** | 1,600,845 |
| | **254,499,295** | 239,696,846 |
| **Earnings Before the Following** | **20,215,706** | 7,391,809 |
| **Unusual Item** (Note 10) | – | (7,183,023) |
| | **20,215,706** | 208,786 |
| **Income Tax (Recovery)** (Note 11) | | |
| Cnrrent | **30,824,524** | 6,320,286 |
| Deferred | **(21,309,792)** | (4,474,485) |
| | **9,514,732** | 1,845,801 |
| | **10,700,974** | (1,637,015) |
| **Minority Interest** | **(4,585,137)** | (3,608,146) |
| **Losses of Non-consolidated Entities** | **(752,862)** | (1,073,031) |
| **Earnings (Loss) Before Extraordinary Items** | **5,362,975** | (6,318,192) |
| **Extraordinary Items** (Note 12) | **(4,175,356)** | 63,117,736 |
| **Net Earnings** | **$ 1,187,619** | $ 56,799,544 |
| **Earnings (Loss) Per Share** (Notes 9 and 13) | | |
| Before extraordinary items | **$.33** | $(.43) |
| After extraordinary items | **$.07** | $3.90 |

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS

| Year ended July 31, 1990 | 1990 | 1989 |
|---|---|---|
| **Balance, beginning of year** | **$120,189,452** | $ 65,040,670 |
| Add: net earnings | **1,187,619** | 56,799,544 |
| | **121,377,071** | 121,840,214 |
| Less: dividends paid | **1,848,216** | 1,650,762 |
| **Balance, end of year** | **$119,528,855** | $120,189,452 |

# CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

| Year ended July 31, 1990 | 1990 | 1989 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Earnings (loss) before extraordinary items | **$ 5,362,975** | $ (6,318,192) |
| Items not affecting cash flow | **11,588,119** | 8,273,899 |
| Unusual item | **–** | 7,183,023 |
| Decrease (increase) in non-cash working capital | | |
| Accounts receivable | **(13,698,638)** | (712,732) |
| Inventory and contracts in progress | **810,564** | (5,584,916) |
| Prepaid expenses | **(467,148)** | (474,433) |
| Accounts payable | **5,587,013** | 4,235,568 |
| Income taxes payable | **2,766,551** | (160,262) |
| | **11,949,436** | 6,441,955 |
| Extraordinary items | **(3,062,020)** | (1,217,233) |
| | **8,887,416** | 5,224,722 |
| **Investing activities** | | |
| Purchase of fixed assets | **(9,665,914)** | (6,516,524) |
| Proceeds on disposal of fixed assets | **2,406,168** | 847,215 |
| Investment in non-consolidated entities | **(58,267,602)** | (20,920,007) |
| Decrease in notes receivable | **322,749** | 7,520,265 |
| Acquisition of subsidiary operations (including goodwill of $3,126,438; 1989–$80,000) | **(7,252,441)** | (1,398,470) |
| Proceeds from investments | **442,310** | 1,151,263 |
| Proceeds from agreement receivable | **105,398,071** | – |
| | **33,383,341** | (19,316,258) |
| Proceeds on disposal of operations | **–** | 2,654,041 |
| | **33,383,341** | (16,662,217) |
| **Financing activities** | | |
| Proceeds from long-term debt | **1,435,799** | 14,455,388 |
| Retirement of long-term debt | **(28,106,203)** | (4,571,509) |
| Issue of share capital and options | **20,169,195** | 1,262,758 |
| | **(6,501,209)** | 11,146,637 |
| **Payment of dividends** | | |
| By the Company | **(1,848,216)** | (1,650,762) |
| By subsidiaries to minority shareholders | **(6,750,000)** | (4,018,889) |
| | **(8,598,216)** | (5,669,651) |
| **Increase (decrease) in cash** | **27,171,332** | (5,960,509) |
| **Bank indebtedness, beginning of year** | **(10,118,020)** | (4,157,511) |
| **Cash (bank indebtedness), end of year** | **$ 17,053,312** | $(10,118,020) |
| **Represented by:** | | |
| Cash and short-term investments | **$ 40,189,301** | $ 8,059,112 |
| Bank indebtedness | **(23,135,989)** | (18,177,132) |
| | **$ 17,053,312** | $(10,118,020) |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 1990

**1. Summary of significant accounting policies**

*Basis of presentation*

The consolidated financial statements include the accounts of all entities 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*

Fixed assets (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 2 1/2% to 33% providing for amortization of the cost of buildings and equipment over their estimated useful lives. The hotel buildings and golf course are being depreciated using the sinking fund method over their estimated useful life of 50 years.

*Goodwill*

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 translated 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**

During the year, the Company acquired the following:

74.3% of the outstanding shares of Canuck GIE Engineering Ltd. for $580,750 cash.

50% of Seacore Ltd. (U.K.) for $3,126,293 cash.

158 units in the Cayman Hotel & Golf Club Partnership for US $7,900,000 cash, thereby increasing its interest in the partnership to 96.8%.

30% of the outstanding shares of Vadeko International Inc. for $783,120 cash, thereby increasing its interest in the Company to 80%.

100% of the outstanding shares of Rittenhouse Zeman & Associates, Inc. for US $3,000,000 cash.

On July 31, 1990 the Company gained effective control of Ellesmere Developments Ltd. Accordingly, the assets and liabilities of Ellesmere, which relate primarily to its resort hotel and condominium development project, have been included in the Company's consolidated balance sheet, whereas the 1990 operating results have been accounted for on the equity basis.

**3. Investments and other**

| | 1990 | 1989 |
|---|---|---|
| *Investments* | | |
| Cogeco Inc. (788,022 Subordinate Voting and 3,948,114 Class B Preferred shares at cost — market value $17,130,492) | **$30,634,098** | $ – |
| Agreement receivable – Cogeco Inc. | **–** | 30,601,558 |
| Non-consolidated entities – equity basis | **16,551,988** | 36,233,677 |
| Other, at cost | **1,654,351** | 1,997,457 |
| | **48,840,437** | 68,832,692 |
| *Other* | | |
| Condominium project under development – at lower of cost and net realizable value | **16,213,703** | – |
| | **$65,054,140** | $68,832,692 |

In the opinion of management, the decline in market value of Cogeco Inc. shares is considered to be temporary.

**4. Resort hotel and golf course**

| | 1990 | 1989 |
|---|---|---|
| Land | $ 8,506,839 | $ – |
| Hotel and golf course | 64,329,737 | – |
| | 72,836,576 | – |
| Less accumulated depreciation | 2,784,586 | – |
| | $70,051,990 | $ – |

**5. Bank indebtedness**

| | 1990 | 1989 |
|---|---|---|
| Bank loans | $18,992,145 | $15,679,693 |
| Cheques issued and uncashed | 4,143,844 | 2,497,439 |
| | $23,135,989 | $18,177,132 |

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.

**6. Long-term debt**

| | 1990 | 1989 |
|---|---|---|
| Mortgages, chattel mortgages and obligations under capital lease with interest rates averaging 12.0% (maturity dates to 1999) | $ 4,327,963 | $ 3,673,266 |
| Notes, agreements and loans payable with average interest rates at 12.5% and secured by certain assets (maturity dates to 2003) | 36,908,839 | 38,089,575 |
| 6½% Convertible subordinated debentures, unsecured, maturing March 15, 1992 | 288,000 | 343,000 |
| Note payable to non-consolidated entity, unsecured, with interest payable annually at prime plus 7/8% (no fixed repayment terms) | – | 13,000,000 |
| | 41,524,802 | 55,105,841 |
| Less current portion | 6,516,885 | 7,146,321 |
| | $35,007,917 | $47,959,520 |

Principal payments for the five succeeding years are: $6,516,885; $30,362,144; $1,584,800; $1,090,883 and $159,255.

Included in total long-term debt is $28,073,622 (1989 – $12,063,826) repayable in U.S. funds.