BC Sugar

ANNUAL REPORT 1993

"We are set to compete and win. We have put in place the strategies which will ensure long term economic success."

Corporate Information

Head Office

Location:

123 Rogers Street, Vancouver, B.C.

Postal Address:

Box 2150, Vancouver, B.C., V6B 3V2

Stock Listing

Toronto Stock Exchange

Transfer Agents

Montreal Trust Company of Canada

Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, February 15, 1994 at 3:00 p.m. in the British Room of the Hotel Vancouver, Vancouver, British Columbia.

BC Sugar

Financial Highlights

(Restated. See Note 1(a) for basis of accounting for acquired and discontinued operations)

(000's omitted, except per share amounts)

Years Ended September 30	1993	1992	1991
Revenues	$706,173	$281,445	$161,187
Earnings from continuing operations	$ 15,023	$ 10,055	$ 9,675
Net earnings (loss)	$ 15,023	$ 11,694	$ (8,554)
Dividends	$ 9,567	$ 9,486	$ 11,468
Average net shares outstanding	23,807	16,557	14,271
Per Common Share			
Earnings from continuing operations	$ .63	$ .61	$ .68
Net earnings (loss)	$ .63	$ .71	$ (.60)
Dividends	$ .40	$ .60	$ .80

ROGERS' SINCE 1890 Lantic JACK FROST.

Strong brand recognition is one of the foundations of BC Sugar's success. While individual brand names vary, exceptional quality is evident in everything the Company makes.

William C. Brown
President and Chief Executive Officer.

Report to Shareholders

Fiscal 1993 was a year of significant achievement for BC Sugar, marking its first full year as owner of 100 percent of Lantic Sugar Limited and its wholly-owned subsidiary, Refined Sugars, Inc. The Company, now the largest sugar company in Canada and the third largest in North America, serves a market of over 75 million consumers across the continent.

"Strong consumer brand recognition, proximity to markets, a long standing tradition of customer service and improved efficiencies in all operating regions continue to be the foundation of the Company's ongoing success."

With the full impact of the Lantic acquisition, revenues totalled $706.2 million, compared to $281.4 million in fiscal 1992, while earnings from continuing operations increased to $15 million, from $10 million in the same period last year. Earnings per share from continuing operations for fiscal 1993 were $0.63, compared to $0.61 for fiscal 1992. The earnings per share for the current period reflect the June 1992 issuance of 8,450,800 common shares together with the weighted effect of the March 1993 issuance of an additional 2,000,000 common shares.

Cash flow generated from continuing operations increased from $18.6 million to $27.3 million. The increased cash flow together with cash on hand and the proceeds from the equity issue contributed to a decrease of $35.7 million in long-term debt, from $261.3 million to $225.6 million, bringing the long-term debt-to-equity ratio from 1.68:1 in 1992 to 1.19:1 in 1993. The Company will continue to focus on reducing the level of debt in fiscal 1994. Quarterly dividend payments of 10 cents per share were made throughout the year and are expected to be maintained in 1994.

Management efforts in fiscal 1993 concentrated on improving profitability through rigorous cost control programs. As a result, total operating and labour costs were reduced by approximately 10 percent. These reductions, together with the synergy and efficiency programs introduced in conjunction with the acquisition, have translated into annual savings of over $10 million to the Company. We continue to concentrate our efforts on becoming a low-cost producer.

Consistent with our goal of being a major North American participant in our core business, the decision was made to sell the specialty chemicals division. Significant progress has been made in identifying prospective purchasers and we are working toward a sale of this business in fiscal 1994. Efforts to secure an appropriate price have been enhanced by the $6.2 million net earnings of the chemical division in 1993. Due to its accounting treatment as a discontinued operation, these results are not reflected in the Company's earnings.

The sugar industry continues to present the Company with a mix of opportunities and challenges. However, the understanding of the market gained from long experience allows BC Sugar to succeed year after year. Both Canadian and U.S. operations performed at improved levels over 1992, despite increased competitive pressures associated with the resurgence of imported refined sugar in Canada and the effects of a record sugar beet crop in the United States.

"With the understanding of the market gained from long experience, BC Sugar can succeed in an industry that presents it with a mix of opportunities and challenges."

Excess U.S. beet sugar production contributed to additional U.S. exports into Canada and put pressure on margins in both countries. Discounts to customers in Canada were at unprecedented levels during 1993 while U.S. refined sugar prices were the lowest they had been in six years. As a result of this U.S. domestic sugar supply/demand imbalance, marketing allotments were imposed in July, which resulted in some beet sugar being held off the market with a consequent improvement in refined sugar prices.

Although marketing allotments were not extended beyond September 30, 1993, better margins have continued, partly due to expectations for a substantial reduction in this year's sugar beet crop. These margins should result in improved performance for the Company's U.S. operations during 1994.

The floods which occurred in the midwestern states contributed to firmer prices for high fructose corn syrup, making refined sugar a more competitive alternative. This should result in higher domestic volumes for the Canadian sugar industry in 1994.

While Canada is one of the very few countries with only a minor tariff and no other restriction on imports of refined sugar, the U.S., with its domestic price support program, is a highly restricted market. Through the Canadian Sugar Institute and the federal government, BC Sugar continues to seek remedies for obstacles to fair and equitable trade of sugar and sugar containing products between Canada and the United States. The Company's goals correspond with the longer-term spirit of both the Canada-U.S. Free Trade Agreement and the North American Free Trade Agreement.

We believe that the opportunities for continued growth in our business are substantial. Strong consumer brand recognition, proximity to markets, a long standing tradition of customer service and improved efficiencies in all operating regions continue to be the foundation of the Company's ongoing success.

As BC Sugar looks back over its more than 100-year history, one thing is clear – a strong, dedicated and skilled workforce has been essential to its success. These attributes are still important as the Company builds for the future, with committed employees to implement the plans, operate the facilities, and provide a valuable link to our customers.

We would like to thank all our employees for their continued efforts this past year; our shareholders for their support; and our customers, suppliers, and other partners, who remain an intrinsic part of our success.

Mr. H.R. Whittall, having reached the mandatory retirement age for directors, will not be standing for re-election to the board in 1994. Mr. Whittall has been a director of the Corporation since 1966 and his contribution on behalf of the shareholders is gratefully acknowledged.

On behalf of the Board

William C. Brown
President and Chief Executive Officer
December 10, 1993

*From left to right: Andre Bergeron, Vice President;
Jim Hudson, Vice President Finance, Secretary and Chief Financial Officer;
Bill Brown, President and Chief Executive Officer; David Elliott, Vice President;
Greg Hoskins, Vice President; and Claudio Bussandri, Vice President.*

To the management and employees of BC Sugar, being competitive is more than just a concept. It's a hard-won achievement; the deciding factor between success and failure.

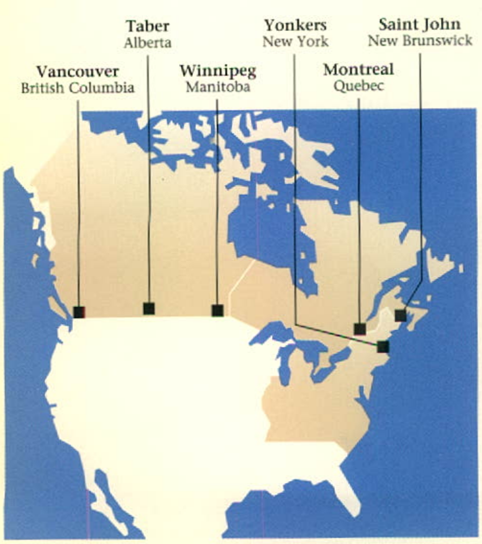
We know what it takes to be competitive. We know every aspect of the business in which we operate – what today's challenges are and where today's opportunities lie. And we know how to take advantage of them.

We recognize our Company cannot be the same company it was a century, half a century, or even a decade ago, and expect to remain successful.

Accordingly, the past two years have been a time of preparation, of laying a strong foundation for the future. Management has developed a strategy that will ensure the Company can meet the challenges and take advantage of the opportunities.

BC Sugar is committed to succeeding in tomorrow's environment.

Operations Review



The Business of Selling Sugar

BC Sugar is the dominant Canadian sugar producer with a total nominal capacity of approximately 750,000 tonnes. With an additional 475,000-tonne refining capacity in the United States, BC Sugar supplies over one quarter of the northeastern U.S. market.

The Canadian Market

The Canadian market is served by the Company's cane sugar refineries in British Columbia, Quebec and New Brunswick, and beet sugar factories in Alberta and Manitoba. Together, these facilities account for approximately 70 percent of Canadian domestic production.

In addition to one major domestic competitor, competition arises from imported refined sugar from both the U.S. and offshore markets, as well as from High Fructose Corn Syrup (HFCS).

In 1993, the Canadian market, which is about 70 percent industrial and 30 percent consumer sales, totalled 1,160,000 tonnes. Imports, mostly from the United States, accounted for approximately 150,000 tonnes.

Per capita sugar consumption in Canada remains relatively constant and volume increase is thus linked to population growth. Accordingly, the Company continually strives to protect and maintain its market share. The export market is directly accessed through sales of beet sugar and indirectly through sugar sales to manufacturers of sugar containing products.

Western Operations Annual sales of over 200,000 tonnes represent more than 80 percent of western market share. Approximately 40 percent is sold to the consumer trade under the Rogers' brand name. The Company also sells a limited quantity of beet sugar to the U.S. In addition, it produces beet pulp and molasses, which are sold primarily for animal feed.

The product is thoroughly checked before shipping.

Eastern Operations With domestic sales of around 490,000 tonnes per annum, the Company's eastern Canadian refineries account for approximately 60 percent of sugar shipments in the region. The eastern Canadian product mix is about 75 percent industrial and 25 percent consumer. Sales are made under the Lantic brand name.

The U.S. Market

The majority of the approximately 475,000 tonne volume from BC Sugar's refinery in Yonkers, New York, ("RSI"), is sold to industrial customers, with the balance sold to consumers under both the Jack Frost label and various private labels.

The past 12 months marked the sixth consecutive year of sugar consumption growth in the United States, a trend that is expected to continue for the foreseeable future. Sales of sugar in the U.S. grew approximately two percent last year, representing about 200,000 tonnes of yearly growth for the industry. However, the impact of the recession in the northeast where RSI operates its refinery has kept growth in this area at less than one percent. In addition, an increase in 1992/1993 beet sugar production further offset the effect of this rise in consumption.

"We have met our goal of becoming a major North American participant in our core business – Sugar."

Competition in the northeastern U.S. is from other cane refiners, as well as a number of beet sugar producers.

The cost of raw sugar in the United States is substantially higher than world market costs because of the domestic price support program.

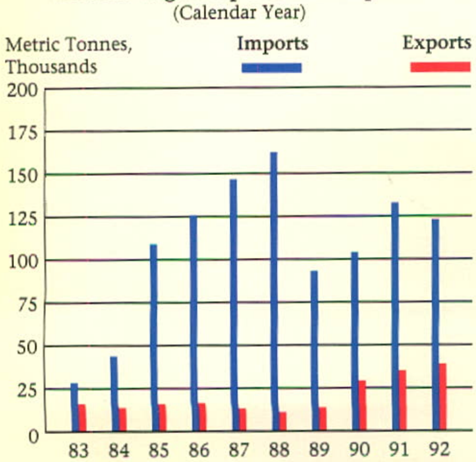
Trade Issues

Much of the competition in Canada originates from the U.S., where recent large sugar beet crops have resulted in oversupplies of refined sugar. In addition, the Re-Export Program for sugar has allowed U.S. refiners to buy raw sugar on the world market for re-export as refined sugar, or as an ingredient in food. Canada's lack of trade restrictions on imported refined sugar and its proximity to U.S. producers, make it an obvious target for U.S. exports.

The Company continues to seek remedies for obstacles to fair and equitable trade of sugar and sugar containing products between Canada and the United States.

In addition to imports from the U.S., other countries such as Denmark, Germany and Korea export sugar into Canada from time to time, at artificially low prices. BC Sugar's reputation for excellence in quality and service and for fair pricing minimizes the effects of this unfair competition.

Refined Sugar Exports and Imports*
(Calendar Year)



* *Source: Canadian Sugar Institute*

The latest technology ensures
the highest standards of efficiency.

Pricing

Canada Canadian refiners purchase raw sugar on the world market, where prices are determined by global supply and demand. Although sugar consumption worldwide currently exceeds production, trade restrictions and subsidies together with localized excesses and shortfalls contribute to some volatility in sugar prices.

"The Company will meet the challenges of its business environment with well-defined internal programs and with its employees' commitment to improved performance."

The price of refined sugar is based on a margin above the raw sugar price. BC Sugar is insulated from raw sugar price fluctuations as all its cane sugar purchases and sales are hedged on the commodity market. A lower raw sugar price however, serves both to improve the competitive position of refined sugar in relation to alternative sweeteners and reduces the Company's financing costs.

United States While the principles of pricing refined sugar against a margin over raw sugar costs are the same in the United States as in Canada, the raw sugar price in the U.S. is much more stable as a consequence of the price support system.

Profits

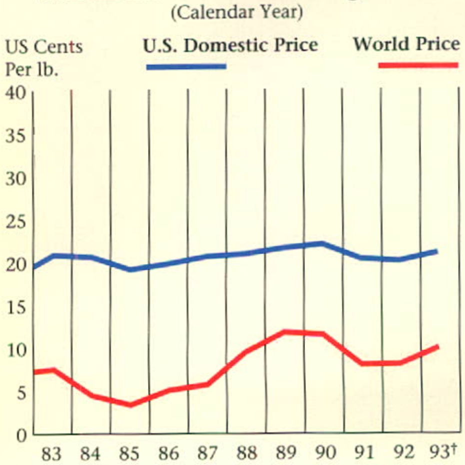
Canada The Company continues to take aggressive steps to preserve its market share against the threat of increased competition. Margins and, accordingly, profits continued to be subjected to downward pressure as a result of this competition in 1993. Notwithstanding these factors, Canadian operations performed at improved levels over 1992 due to the Company's cost reduction, efficiency and synergy programs.

United States During 1993 beet sugar producers expanded their market into traditional cane sugar areas. To protect market share, cane refiners were forced to discount prices.

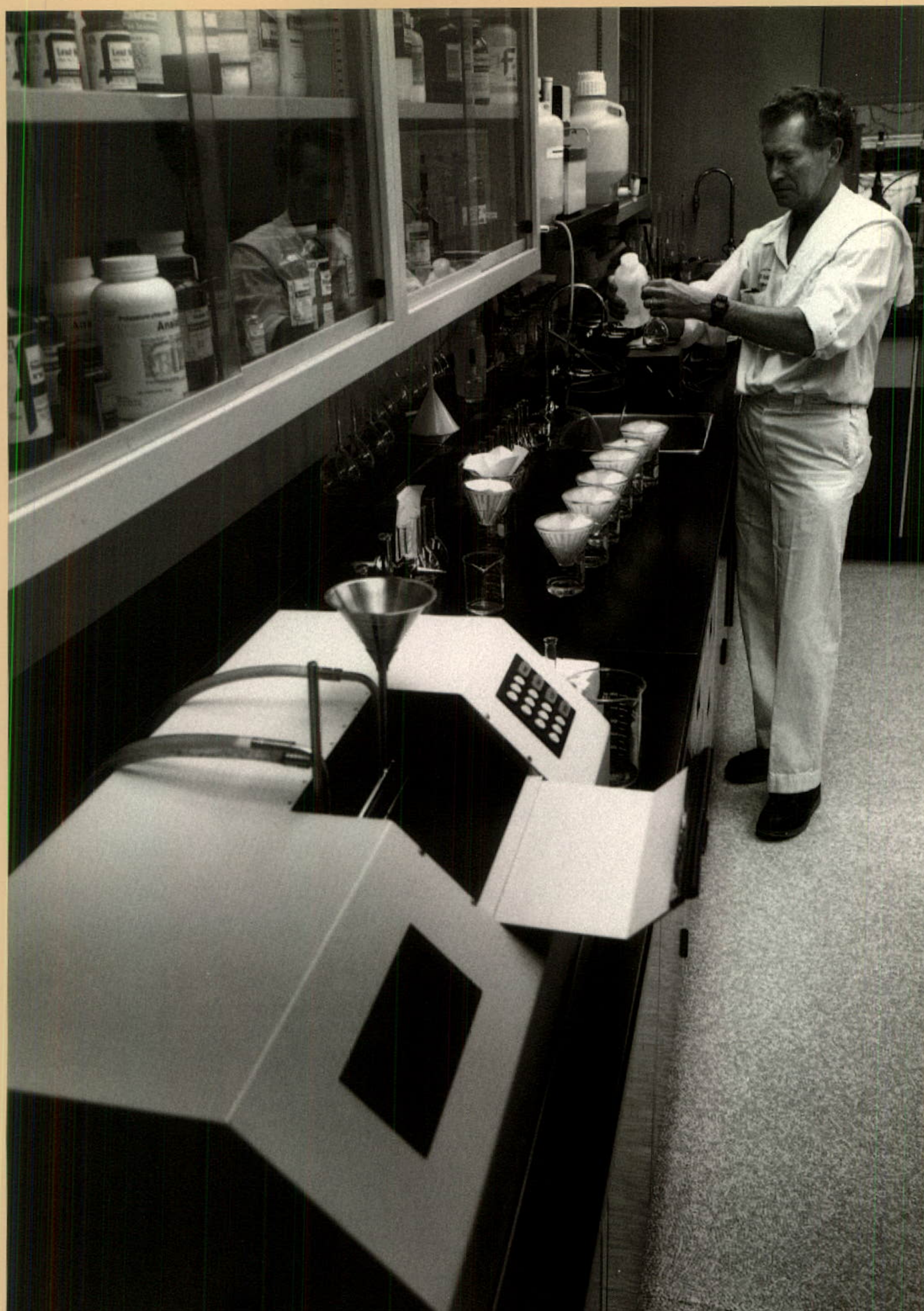
The excess supply of beet sugar led to the imposition of marketing allotments on domestic production during the July quarter. No allotments have been established for the current quarter although these are reviewed on a quarterly basis.

As a result of the earlier allotments, margins in the U.S. are currently at higher levels. Every effort will be made in 1994 to further improve margins to a level which meets the Company's expectations.

U.S Domestic vs World Raw Sugar Price*
(Calendar Year)



* *Source: Canadian Sugar Institute*
† *11 months*



BC Sugar's products meet stringent quality standards.

A Strategy for Success

BC Sugar is now a major participant in the North American sugar industry. With production capacity well in excess of one million tonnes, and with the natural advantage of being close to its end markets, the Company has the size and strength critical to its continued success.

Striving for Maximum Efficiency

"Since its inception, BC Sugar has placed a premium on product quality and customer service."

Management places equal importance on running an efficient company and maintaining tight cost controls. With the sale in 1992 of the Company's interest in Anderson Exploration and the pending sale of its specialty chemicals division, BC Sugar is now focused on making its sugar business more profitable. This year, with the acquisition of Lantic complete, the Company implemented a cost reduction program designed to maximize the inherent synergies of this acquisition. The results were impressive and efforts are continuing in this direction.

Strategic Marketing

There are substantial opportunities for increased earnings. This achievement will depend on the Company's ability to improve profits by concentrating on being a low-cost producer, while at the same time maintaining its market share in Canada and capitalizing on increased consumption in the United States. This will require a continued emphasis on those industry sectors with growth potential.

Poised for the Future

While significant progress in improving profitability has been made in 1993, the job is far from complete. The achievements outlined in this report have brought the Company part of the way. BC Sugar will continue to focus on productivity improvements, further solidify relationships with its customer base, and enhance its consumer brand program. The Company will meet the challenges of its business environment with well defined internal programs and with its employees' commitment to improved performance.

Management's Discussion and Analysis

General

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto. All information is based on BC Sugar's fiscal year.

The sugar operations of BC Sugar include The British Columbia Sugar Refining Company, Limited, a wholly-owned subsidiary operating with a cane refinery located in Vancouver, British Columbia and beet factories located in Taber, Alberta and Winnipeg, Manitoba ("Western Operations"), and the operations of Lantic Sugar Limited ("Lantic"), which operates cane refineries in Saint John, New Brunswick, and Montreal, Quebec and its wholly-owned subsidiary Refined Sugars, Inc. ("RSI") which has a cane refinery in Yonkers, New York. The specialty chemical operations of BC Sugar include Kalama Chemical, Inc. which operates specialty chemical plants in Kalama, Washington and Garfield, New Jersey, and Chatterton Petrochemical Corporation which has a facility that ceased operation in 1992 located in Delta, British Columbia ("Specialty Chemicals").

The investment in Lantic has been accounted for in the consolidated financial statements of BC Sugar under the consolidation method for the year ended September 30, 1993 and for the period from June 30, 1992 to September 30, 1992. For the period from October 1, 1991 to June 29, 1992, when the Company owned 50 percent of Lantic, the investment in Lantic was accounted for under the equity method.

Under the consolidation method of accounting, the revenues and expenses and the assets and liabilities of Lantic are consolidated with those of the Company for the 1993 fiscal year and for the final three months of the 1992 fiscal year. The consolidated financial results are therefore not truly comparative, because the 1992 statement of earnings reflects the consolidation of the revenues and expenses of Lantic for only the three month period from June 30, 1992 to September 30, 1992, whereas the 1993 statement of earnings reflects the full year of Lantic's results. For the period from October 1, 1991 to June 29, 1992, Lantic's results are reflected on a net basis under the equity method.

BC Sugar's balance sheets at September 30, 1993 and 1992, reflect the consolidation of the assets and liabilities of the Company's investment in Specialty Chemicals. This accounting treatment, which has been adopted retroactively in 1993 pursuant to recommendations of the Canadian Institute of Chartered Accountants, has no effect on the consolidated statements of earnings.

Results of Operations

To facilitate a comparison of the results of operations between years, the following table, together with the statement of earnings for the current year, sets forth a pro forma statement of earnings for the year ended September 30, 1992 as if BC Sugar's acquisition of the second 50 percent of Lantic occurred effective October 1, 1991.

	Year ended September 30, 1993 Actual	Year ended September 30, 1992 Actual	Year ended September 30, 1992 Pro Forma
	(In Thousands of Dollars)		(See Note)
Revenues	$706,173	$281,445	$653,622
Costs and expenses			
Cost of sales	587,281	218,570	549,591
Selling, general and administrative	49,462	25,794	51,208
Depreciation and amortization	16,210	6,811	16,927
Long-term debt interest	24,912	15,188	27,160
Other interest	878	2,395	392
Total costs and expenses	678,743	268,758	645,278
Earnings from continuing operations before income taxes	27,430	12,687	8,344
Income taxes	12,407	3,164	1,972
Earnings before undernoted items	15,023	9,523	6,372
Income from Lantic Sugar Limited	–	532	–
Earnings from continuing operations	15,023	10,055	6,372
Income from discontinued operations	–	1,639	1,639
Net earnings	$ 15,023	$ 11,694	$ 8,011

Note: This pro forma assumes that the acquisition of the second 50 percent of Lantic occurred on October 1, 1991 and was financed by a common share issuance of $75 million and long-term debt of $45 million.

Revenues have increased by approximately $53 million or 8 percent in 1993 compared to the pro forma revenues in 1992. This increase is due to:

- volume increases of 4 percent over the corresponding period a year earlier;
- small increases in the underlying average world price of raw sugar (see chart B); and
- a stronger U.S. dollar which affected the translation of U.S. dollar sales of RSI.

Charts A and B below demonstrate the close relationship between world sugar prices as reflected in sales, cost of sales and gross margin.

World raw sugar prices are determined primarily by global supply and demand; in times of oversupply, the price per tonne falls. A refining margin is added to the raw sugar price to set a base selling price for refined sugar.

Moderate increases or decreases in the world price of sugar do not generally affect the gross margin which the company can generate.

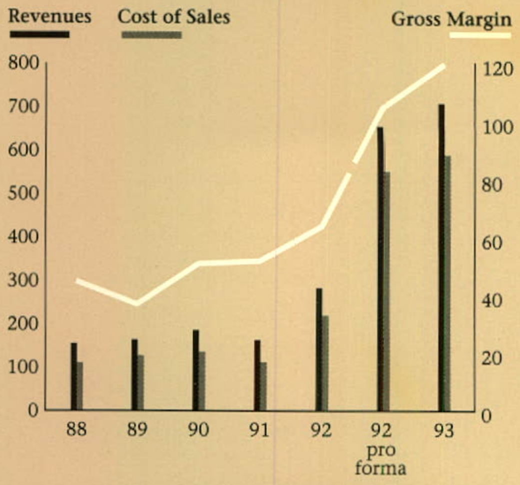
These principles also apply to the U.S. operations of the Company except that in the U.S. a domestic price support program keeps the price of raw sugar in the U.S. significantly above the world market price.

The factors which affect the gross margin are production costs and the discounts offered to customers to offset the effect of competition.

Gross margin (Revenues less Cost of Sales) has increased by approximately $14.9 million from $104 million (pro forma in 1992) to $119 million in 1993.

The increase in the gross margin is attributable to two factors. Firstly, costs on a per tonne basis were lower in 1993 because of higher volumes and secondly, benefits of cost reduction measures undertaken throughout the organization are now starting to materialize.

Chart A
Sugar Revenues, Cost of Sales and Gross Margin
(Millions of Dollars)



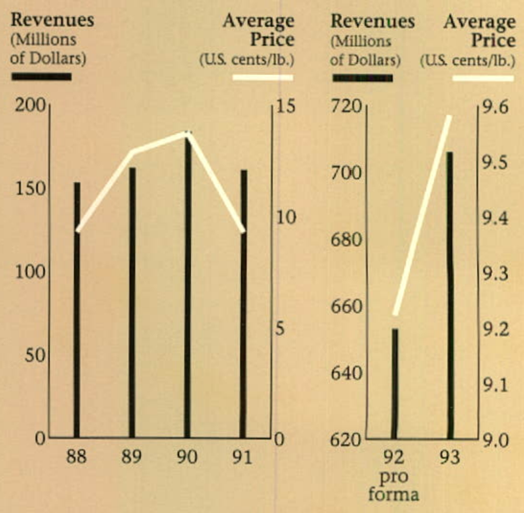
Consolidated earnings from continuing operations before income taxes have increased by approximately $19 million in 1993 compared to the pro forma earnings from 1992 due to the increase in gross margin which increased the earnings by approximately $15 million, and the reduction in interest expense and selling, general and administrative expenses by $4 million for a total increase of $19 million.

The decrease in interest expense is due to the reduction of long-term debt of approximately $35 million in 1993 and the decline in interest rates in 1993 compared to 1992.

The reduction of long-term debt was accomplished by utilization of cash resources which included cash on hand, amounts received from the sale of common stock and cash generated from operations.

The decrease in selling, general and administrative expenses is due to the realization of synergies between Western Operations and Lantic and the implementation of cost reduction programs.

Chart B
Average World Sugar Prices and Corresponding Trend in Revenues



Earnings

In 1993, BC Sugar recorded net earnings of $15 million compared to pro forma net earnings of $8 million and actual net earnings of $11.7 million in 1992. The main factors contributing to this increase are those discussed earlier.

Net earnings from sugar operations increased from $10 million in 1992 to $15 million in 1993, on a per common share basis, this increase was from $0.61 in 1992 to $0.63 in 1993.

On a per common share basis, net earnings decreased from $0.71 per share in 1992 to $0.63 per share in 1993. The decrease in earnings per share is due both to the increased average number of shares outstanding in 1993 over 1992 and the effect of the disposal of the investment in Anderson Exploration which had a $0.10 per share effect on 1992 net earnings.

External and Industry Factors Impacting Operating Results

BC Sugar's sugar products are marketed in western Canada through Western Operations, in eastern Canada by Lantic and in the eastern United States by RSI. The sales volume and pricing of the Company's sugar products are not significantly affected by adverse changes in the economy in any of these markets.

The Company faces competition from high fructose corn syrup, particularly when world sugar prices rise, and in the Canadian market from refined sugar imported from the United States, the Far East and Europe. Competition in the United States market comes from other U.S. based cane and beet refiners.

Canada does not impose import quotas nor meaningful tariffs for sugar or other sweeteners. The Company has met the competition from sugar imports with ongoing incentive programs to help counter these competitive factors and to stimulate and maintain sales. The result has been to maintain and in some cases slightly increase sales volumes, but at the expense of lower sales prices which have adversely affected margins.

Management will continue to offer incentive programs and maintain activities that are focused on reducing costs to mitigate the effects of sugar imports into Canada.

Export access to sugar markets in the United States is restrained by a quota system, and any refined sugar shipped from Canada into the United States must be produced from domestically grown sugar beets rather than from imported raw cane sugar. BC Sugar is the only producer of beet sugar in Canada and ships approximately 30,000 tonnes of refined beet sugar per year into the United States market.

Sales volumes and margins in the United States operations (through RSI), are dependent on the supply of sugar from U.S. based cane and beet growers, refiners and overall market demand. In the past two years there have been large beet sugar crops which have had the effect of putting increased pressure on margins. Management does not anticipate any major changes in this market over the foreseeable future.

Effects of Changing Prices

The Company does not believe its business is impacted by inflation to a greater extent than the general economy. The Company monitors the impact of inflation and attempts to adjust prices where market conditions permit. Inflation did not have a significant effect on sales levels during fiscal 1993 or 1992.

The Company protects itself against fluctuations in raw sugar prices by entering into commodities futures contracts and options on regulated futures markets for the purpose of hedging sugar inventories and related purchase and sale commitments.

Liquidity and Capital Resources

Cash requirements for working capital and majority of capital expenditures have historically been met with funds generated from operations. Management has reviewed projected cash flows and compared these to ongoing requirements for dividends, capital improvements, interest and debt repayments and is of the opinion that all these cash requirements will be met by funds generated from operations.

During 1993 the Company issued 2,000,000 Class A common shares for net cash proceeds of $19 million after share issue costs. The proceeds from this issuance were used to reduce bank indebtedness.

Except for normal maintenance and capital improvements which will be financed out of operating income, the Company has no plans which would require additional capital resources.

As at September 30, 1993, the Company had cash and operating lines of credit of $152 million of which $23.6 million were utilized. The lines of credit are subject to certain bank margin requirements.

Specialty Chemicals

Management continues to operate the Specialty Chemicals division but is in active discussions with several potential purchasers. It is management's intention to sell these assets, which had a book value of $55 million at September 30, 1993, as soon as possible, but only at a price and under terms and conditions which reflect the value inherent in the operations of this business. Management anticipates that a sale of these assets will be consummated in the fiscal year ending September 30, 1994. The proceeds from the sale of these assets will be used to reduce existing bank debt.

Although total revenues remained relatively flat in 1993 compared to 1992, approximately $97 million in each year, operating income before income taxes increased from $409,000 to $10,104,000. This income has not been included in the Consolidated Statements of Earnings and income from Specialty Chemicals will only be recognized on realization of proceeds in excess of book value at the time a sale has been consummated.

Management does not anticipate that there will be any changes of significance in the near future. It is expected revenues and expenses will follow the trend set in the 1993 fiscal year.

Future Operations

Management does not expect any significant changes in the supply and demand or pricing of raw or refined sugar in the world or U.S. markets over the foreseeable future.

Management's focus will continue to be to realize the benefits of the synergies available with the acquisition of Lantic, to continue efficiency improvements at all the Company's facilities, and to sell assets not related to the sugar business.

Statements of Earnings

BC Sugar Refinery, Limited and Subsidiary Companies, Years ended September 30

(In Thousands of Dollars)	1993	1992
Revenues (Note 1(a))	$706,173	$281,445
Costs and expenses		
Cost of sales	587,281	218,570
Selling, general and administrative	49,462	25,794
Depreciation and amortization	16,210	6,811
Long-term debt interest	24,912	15,188
Other interest	878	2,395
Total costs and expenses	678,743	268,758
	27,430	12,687
Income taxes (Note 10)	12,407	3,164
Earnings before undernoted items	15,023	9,523
Income from Lantic Sugar Limited (Note 2(b))	–	532
Earnings from continuing operations	15,023	10,055
Income from discontinued operations (Note 11)	–	1,639
Net earnings	$ 15,023	$ 11,694
Basic earnings per common share (Note 14(a))		
Earnings from continuing operations	$ .63	$ .61
Income from discontinued operations	–	.10
Net earnings	$ .63	$ .71

Statements of Retained Earnings

BC Sugar Refinery, Limited and Subsidiary Companies, Years ended September 30

(In Thousands of Dollars)	1993	1992
Balance, beginning of year	$ 13,532	$ 13,446
Net earnings	15,023	11,694
	28,555	25,140
Less:		
Share issue expenses, net of deferred income taxes of $155 (1992 – $1,474)	222	2,122
Dividends	9,567	9,486
Balance, end of year	$ 18,766	$ 13,532

Balance Sheets

BC Sugar Refinery, Limited and Subsidiary Companies, Years ended September 30

(In Thousands of Dollars)	1993	1992
ASSETS		(Note 1(a))
Current assets		
Cash	$ 1,105	$ 28,447
Accounts receivable	91,194	82,156
Inventories	86,883	84,591
Prepaid expenses	8,502	4,023
Deferred income taxes	3,434	3,067
Total current assets	191,118	202,284
Investments and other assets (Note 4)	4,594	5,405
Fixed assets (Note 5)	194,511	191,247
Goodwill, net of accumulated amortization (Note 5)	152,976	158,695
	$543,199	$557,631
LIABILITIES		
Current liabilities		
Bank loans (Note 6)	$ 25,195	$ 53,287
Accounts payable and accrued liabilities	80,715	61,127
Current portion of long-term debt (Note 7)	19,452	10,920
Total current liabilities	125,362	125,334
Long-term debt (Note 7)	206,148	250,432
Other long-term liabilities (Note 8)	8,937	12,625
Deferred income taxes	13,626	13,837
Total liabilities	354,073	402,228
SHAREHOLDERS' EQUITY		
Share capital (Note 9)		
Common shares	155,613	136,363
Preferred shares	1,570	1,570
	157,183	137,933
Retained earnings	18,766	13,532
	175,949	151,465
Foreign exchange adjustment	13,177	3,938
Total shareholders' equity	189,126	155,403
	$543,199	$557,631

Approved by the Board
William C. Brown, Director
John W. Pitts, Director

Contingent liabilities – Note 13

Statements of Changes in Financial Position

BC Sugar Refinery, Limited and Subsidiary Companies, Years ended September 30

(In Thousands of Dollars)	1993	1992
		(Note 1(a))
Cash provided by (used for)		
Operations		
Funds provided from continuing operations (below)	$30,053	$16,009
Changes in non-cash working capital of continuing operations	(2,756)	2,585
Cash from continuing operations	27,297	18,594
Cash from discontinued operations	8,264	10,470
Cash from operations	35,561	29,064
Cash dividends paid	(9,567)	(9,486)
	25,994	19,578
Financing		
Decrease in long-term debt	(70,948)	(1,462)
Increase in long-term debt	35,000	15,463
Issue of common shares	19,250	75,001
Share issue costs	(377)	(3,596)
	(17,075)	85,406
Investments		
Additions to fixed assets	(12,030)	(8,408)
Other	3,861	479
Investment in Lantic Sugar Limited	–	(120,500)
Proceeds from sale of Anderson Exploration Ltd.	–	33,483
Dividends from Lantic Sugar Limited	–	1,093
	(8,169)	(93,853)
Increase in cash	750	11,131
Cash of Lantic Sugar Limited at commencement of consolidation accounting (Note 1(a))	–	8,933
Net current bank loans, beginning of year	24,840	44,904
Net current bank loans, end of year	$24,090	$24,840

Net current bank loans is defined as current bank loans less cash.

FUNDS PROVIDED FROM CONTINUING OPERATIONS

	1993	1992
Earnings from continuing operations	$15,023	$10,055
Deferred income taxes	(1,230)	975
Depreciation and amortization	16,210	6,811
Income from Lantic Sugar Limited	–	(532)
Loss from investments	–	558
Pension	(293)	(276)
Other	343	(1,582)
	15,030	5,954
Funds provided from continuing operations	$30,053	$16,009

Notes to Financial Statements

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1993 and 1992

1. Significant accounting policies

(a) Basis of presentation

The consolidated financial statements include the accounts of the wholly-owned subsidiary companies, The British Columbia Sugar Refining Company, Limited, Lantic Sugar Limited ("Lantic Sugar"), Refined Sugars, Inc. ("RSI"), a wholly-owned subsidiary of Lantic Sugar, and Kalama Chemical, Inc. ("Kalama") and Chatterton Petrochemical Corporation ("Chatterton") (Kalama and Chatterton are together referred to as "Specialty Chemicals").

The investment in Specialty Chemicals is accounted for as a discontinued operation (Note 3). It is the Company's policy to value the investment in Specialty Chemicals at an amount not exceeding its estimated net realizable value. The consolidated balance sheets as at September 30, 1993 and 1992 include the balance sheets of Specialty Chemicals. The investment was previously recorded on a non-consolidated basis. This retroactive change in accounting principle, which has been made to comply with a recommendation of the Canadian Institute of Chartered Accountants ("CICA") for consolidation accounting, has no effect on the Statements of Earnings. In accordance with the CICA's recommendations for accounting for Discontinued Operations, the net income of Specialty Chemicals after March 31, 1991 has been deferred and therefore, has not been recorded on the Statements of Earnings. Any difference between proceeds and net carrying value will be recognized on disposal of the investment.

These accounts reflect the consolidation of the accounts of Lantic Sugar and its wholly-owned subsidiary, RSI, commencing on June 30, 1992. Consequently, the Statement of Earnings for 1992 includes the revenues and expenses of this subsidiary for the three month period ended September 30, 1992.

BC Sugar Refinery, Limited ("BC Sugar") accounted for its 17.9 percent interest in Anderson Exploration Ltd. ("Anderson") on the equity basis up to February 29, 1992 when a majority of this interest was disposed of. The remaining interest was accounted for on the cost basis to May, 1992 when the balance of the shares was sold. The Statement of Earnings for 1992 reflects the income from Anderson as income from discontinued operations.

(b) Inventories

Cane sugar inventory is valued at the lower of cost, as determined on the first-in, first-out basis, and market value. The British Columbia Sugar Refining Company, Limited values a normal quantity of 35,000 tonnes of cane sugar at $85 per tonne, which is less than market value.

Beet sugar inventory and all other inventories are valued at the lower of net realizable value and average cost or cost determined on the first-in, first-out basis.

Prior to 1992, The British Columbia Sugar Refining Company, Limited determined cost on the average cost basis. The change to the first-in, first-out basis in 1992 does not have a material effect on these consolidated financial statements.

(c) Futures transactions

The Company, in the normal course of business, enters into commodities futures contracts and options on regulated futures markets for the purpose of hedging sugar inventories and related purchase and sale commitments. Hedging gains and losses on purchase and sale commitments are deferred and included in inventories. Any gain or loss on unhedged commitments is recognized currently.

(d) Fixed assets and goodwill

Fixed assets are stated at cost. Depreciation is provided over the estimated useful lives of the assets. Assets are depreciated by The British Columbia Sugar Refining Company, Limited on the diminishing balance basis and by Lantic Sugar, RSI and Specialty Chemicals on the straight-line basis as follows:

Assets	Rate (percent)
Buildings and improvements	2 – 25
Plant and equipment	5 – 30
Furniture and fixtures	20 – 30

Goodwill arising from the acquisition of Lantic Sugar is amortized on a straight-line basis at 2.5 percent per annum. Amortization of goodwill for the year amounts to $4,014,000 (1992 – $2,266,000).

1. Significant accounting policies – *continued*

(e) Income taxes

Deferred income taxes are provided on timing differences which result primarily from claiming capital cost allowance in excess of depreciation and from the differences between the Company's basis of valuing its sugar inventories and that permitted for income tax purposes.

(f) Foreign currency translations

The operations of RSI and Kalama, both foreign operations, are considered self-sustaining. Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Statement of earnings items are translated at average exchange rates. Gains and losses on translation of these foreign operations are included in the foreign exchange adjustment component of Shareholders' Equity.

The temporal method is used to translate the transactions and balances of the Company that are denominated in foreign currencies. Under this method, monetary assets and liabilities, and non-monetary items carried at market values, are translated at exchange rates in effect at the balance sheet date. Other non-monetary items are translated at their historical exchange rates. Statement of earnings items are translated at average exchange rates. Exchange gains or losses are recognized currently in earnings.

(g) Pension expense and obligation

Assets of defined benefits pension plans are recorded at values which are adjusted to market over a period of five years. Pension expense includes amortization of past service costs, experience gains and losses and the difference between pension fund assets and the actuarial value of accrued pension benefits. These amounts are amortized on a straight-line basis over the expected average remaining service life of the plan participants.

2. Lantic Sugar Limited ("Lantic Sugar")

(a) Acquisition of Lantic Sugar

Effective December 31,1990, the Company acquired 50 percent of the outstanding common shares of Lantic Sugar from Jannock Limited ("Jannock") for cash consideration of $110,000,000. Lantic Sugar owns all of the outstanding shares of Refined Sugars, Inc. Effective June 30, 1992, the Company acquired the remaining 50 percent interest in Lantic Sugar from Jannock for cash consideration of $120,000,000.

These acquisitions have been accounted for by the purchase method and are summarized as follows:

(In Thousands of Dollars)	Initial 50 percent interest	Remaining 50 percent interest
	(Restated)	(Restated)
Net assets acquired:		
Current assets	$ 77,638	$ 67,839
Fixed assets	55,588	60,498
Goodwill	74,976	85,576
Other assets	439	2,150
	$208,641	$216,063
Liabilities assumed:		
Current liabilities	$ 39,179	$ 35,156
Long-term debt	50,806	49,585
Other long-term liabilities	4,863	5,162
Deferred income taxes	2,640	5,660
	97,488	95,563
Cash consideration and acquisition expenses	$111,153	$120,500

The Company accounted for the initial 50 percent interest in Lantic Sugar on the equity basis up to June 29, 1992. Commencing June 30, 1992, the Company accounted for the 100 percent interest in Lantic Sugar on the consolidated basis. During 1993 the Company has reduced the cost of goodwill by $1,705,000 primarily because of reductions of certain liabilities estimated at the time of the acquisition of Lantic Sugar.

2. Lantic Sugar Limited ("Lantic Sugar") – *continued*

(b) Condensed financial information of Lantic Sugar

STATEMENT OF EARNINGS

(In Thousands of Dollars)	October 1, 1991 to June 29, 1992
Sales	$384,696
Costs and expenses	380,508
	4,188
Income taxes	308
Net earnings for the period reported by Lantic Sugar	$ 3,880
BC Sugar's share of Lantic Sugar's income	$ 1,940
Amortization of goodwill	1,408
Income from Lantic Sugar reported by BC Sugar on the equity basis	$ 532

(c) Pro forma statement of earnings for the year ended September 30, 1992

The summarized pro forma statement of earnings of the Company for the year ended September 30, 1992, assuming the acquisition of the remaining 50 percent interest in Lantic Sugar had occurred on October 1, 1991 financed by a common share issuance of $75 million and long-term debt of $45 million, is as follows:

(In Thousands of Dollars)	
Revenues	$653,622
Costs and expenses:	
Cost of sales	549,591
Selling, general and administrative	51,208
Depreciation and amortization	16,927
Long-term debt interest	27,160
Other interest	392
Total costs and expenses	645,278
	8,344
Income taxes	1,972
Earnings from continuing operations	6,372
Income from discontinued operations	1,639
Net earnings	$ 8,011

3. Investment in Specialty Chemicals

Effective March 31, 1991, the Company adopted a formal plan to dispose of its investment in Specialty Chemicals. The Company has engaged an investment firm to assist on the divestiture, is in active discussions with interested parties and believes that these operations will be sold within the next fiscal year. Accordingly, this investment has been accounted for as a discontinued operation.

Summarized combined balance sheets of Specialty Chemicals Companies are as follows:

ASSETS

	As at September 30	
(In Thousands of Dollars)	1993	1992
Current assets	$30,542	$26,667
Investments	1,817	2,633
Fixed assets	34,713	28,489
	$67,072	$57,789

3. Investment in Specialty Chemicals – *continued*

Liabilities and Shareholders' Equity

(In Thousands of Dollars)	As at September 30 1993	1992
Current liabilities	$30,259	$29,600
Long-term debt and liabilities	1,345	6,227
Deferred income taxes	3,463	2,613
Shareholders' equity	32,005	19,349
	$67,072	$57,789

Geographic information for Specialty Chemicals is summarized as follows:

(In Thousands of Dollars)	Canada		United States		Consolidated	
	1993	1992	1993	1992	1993	1992
Revenues*	$ –	$15,798	$97,574	$82,123	$97,574	$97,921
Operating income (loss)*	$(1,160)	$ (3,897)	$11,264	$ 4,306	$10,104	$ 409
Identifiable assets and investments	$ 7,677	$ 8,210	$64,339	$55,095	$72,016	$63,305
Depreciation and amortization*	$ 305	$ 1,346	$ 3,437	$ 3,114	$ 3,742	$ 4,460
Purchase of fixed assets	$ –	$ 198	$ 4,232	$ 3,878	$ 4,232	$ 4,076

* *These amounts are not included in the consolidated financial statements as explained in Note 1 (a).*

If the results of Specialty Chemicals were included in the consolidated Statement of Earnings for the year ended September 30, 1993, net earnings would increase (decrease) by $6,200,000 (1992 - $(1,200,000)).

4. Investment and other assets

(In Thousands of Dollars)	1993	1992
Real estate development properties	$ 2,183	$ 2,183
Other	2,411	3,222
	$ 4,594	$ 5,405

5. Fixed assets and goodwill

(In Thousands of Dollars)	Cost		Accumulated depreciation and amortization		Net book value	
	1993	1992	1993	1992	1993	1992
Land	$ 6,147	$ 5,892	$ –	$ –	$ 6,147	$ 5,892
Buildings and improvements	44,021	42,052	15,626	14,158	28,395	27,894
Plant and equipment, furniture and fixtures	283,115	262,599	130,087	112,207	153,028	150,392
Leasehold improvements	356	401	14	9	342	392
Capital assets held for sale	6,685	6,763	86	86	6,599	6,677
Total fixed assets	$340,324	$317,707	$145,813	$126,460	$194,511	$191,247
Goodwill	$160,552	$162,257	$ 7,576	$ 3,562	$152,976	$158,695

Capital assets held for sale are recorded at the lower of depreciated cost and estimated realizable value.

6. Bank loans

Operating bank loans of the Company are comprised of:

(In Thousands of Dollars)	1993	1992
The British Columbia Sugar Refining Company, Limited		
Bank loans, secured by assets of The British Columbia Sugar Refining Company, Limited	$ 4,971	$ 28,992
Lantic Sugar Limited		
Bank loans, secured by accounts receivable and inventories	10,205	8,684
Refined Sugars, Inc.		
Bank loans, secured by accounts receivable and inventories	7,181	9,233
Kalama Chemical, Inc.		
Bank loans, unsecured	1,272	2,328
Chatterton Petrochemical Corporation		
Bank loans, secured by debenture and assignment of accounts receivable	1,566	4,050
	$ 25,195	$ 53,287

7. Long-term debt

(In Thousands of Dollars)		1993	1992
The British Columbia Sugar Refining Company, Limited			
Term loan "B" bearing interest at bank prime plus 0.5%, maturing March 31, 2001		$ 85,788	$ 85,788
Term loan "C" bearing interest at bank prime plus 0.5%, maturing September 30, 1994		4,000	70,000
Lantic Sugar Limited			
12.50%	Series "A" first mortgage bonds	22,637	23,173
12.125%	Series "B" first mortgage bonds	21,897	22,815
11.75%	Series "C" first mortgage bonds	14,015	14,305
9.55%	Series "D" first mortgage bonds	14,869	–
9.85%	Series "E" first mortgage bonds	19,831	–
8.50%	Promissory note	40,000	40,000
Kalama Chemical, Inc.			
Term loan bearing interest at bank prime plus 0.5%		2,557	3,450
Chatterton Petrochemical Corporation			
Capital loan bearing interest at 5.125% per annum, repayable November 1, 1992		–	1,783
Other		6	38
		225,600	261,352
Less: Current portion of long-term debt		19,452	10,920
		$206,148	$250,432

The British Columbia Sugar Refining Company, Limited and Chatterton Petrochemical Corporation

The facility under term loan "B" was $90,000,000 at September 30, 1993, which is available to The British Columbia Sugar Refining Company, Limited and Chatterton, with repayments of $2,000,000 per quarter until June 30, 1997 at which time quarterly payments increase to $3,000,000. At September 30, 1993 $87,300,000 of this facility was being utilized by both Companies.

Term loan "C" is repayable in full on September 30, 1994.

The Company has entered into an interest swap arrangement which reduces by $1,750,000 per quarter and which matures March 31, 1998. Under the arrangement, interest is fixed at 10.13 percent per annum on the outstanding notional amount. At September 30, 1993 this was $64,750,000.

7. Long-term debt – *continued*

The long-term debt is secured by a general security agreement and a floating charge over the assets of The British Columbia Sugar Refining Company, Limited together with a share pledge of all common shares of Lantic Sugar. The Company has agreed to also provide the bank with pledges of the common shares of material subsidiaries of BC Sugar Refinery, Limited together with mortgages over the lands of The British Columbia Sugar Refining Company, Limited.

Lantic Sugar Limited

The Series "A" first mortgage bonds are repayable in semi-annual blended instalments of $1,708,485 beginning June 1, 1988, with a final instalment of $14,176,819 due December 1, 2002.

The Series "B" first mortgage bonds are repayable in semi-annual blended instalments of $1,828,385 beginning January 1, 1990 and maturing July 1, 2004.

The Series "C" first mortgage bonds are repayable in semi-annual blended instalments of $981,261 beginning January 1, 1990 with a final instalment of $8,246,391 due July 1, 2004.

The Series "D" first mortgage bonds are repayable in semi-annual blended instalments of $847,405 beginning May 1, 1993, with a final instalment of $7,462,931 due November 1, 2007.

The Series "E" first mortgage bonds are repayable in semi-annual blended instalments of $1,153,618 beginning May 1, 1993 with a final instalment of $10,094,080 due November 1, 2007.

The 8.50 percent promissory note is repayable in 20 quarterly instalments of $1,250,000 beginning December, 1993, followed by four quarterly instalments of $3,750,000.

The interest in certain leases of Lantic Sugar and a Deed of Trust and Mortgage carrying a specific charge on certain capital assets not otherwise pledged by Lantic Sugar have been pledged as security for the Series "A", Series "B", Series "C", Series "D" and Series "E" first mortgage bonds. The Deed also contains certain restrictions and covenants relating to the creation of additional long-term debt and distribution to shareholders.

A subordinated hypothecary guarantee covering the land and buildings of a sugar refinery owned by Lantic Sugar has been pledged as security for the 8.50 percent promissory note.

Kalama Chemical, Inc.

The term loan is secured by certain plant equipment. In October 1993, Kalama repaid this amount in full.

Consolidated long-term debt repayment

Required principal payments in each of the next five years are as follows:

	(In Thousands of Dollars)
1994	$ 19,452
1995	15,917
1996	16,265
1997	17,653
1998	21,091

8. Other long-term liabilities

(In Thousands of Dollars)	1993	1992
Deferred employee benefits	$7,598	$ 8,881
Environmental contingencies	1,339	3,744
	$8,937	$12,625

8. Other long-term liabilities – *continued*

The Company's subsidiary, RSI, provides certain health care benefits for substantially all of its retired employees and life insurance benefits for all retired hourly paid employees. These benefits are recognized by the Company as deferred employee benefits as they are earned.

Through the Company's subsidiary Kalama, a general provision for environmental liabilities is recorded in the accounts (Note 13).

9. Share capital

	1993	1992
Common shares outstanding at September 30:		
Class A	23,605,410	21,475,289
Class B	1,116,504	1,246,625
	24,721,914	22,721,914
Preferred shares carrying a cumulative dividend of $1.00 per share and redeemable at $20.00 per share	78,500	78,500

(a) Class A and Class B shares have equal voting rights, rank equally with respect to dividends and are convertible into one another on a share for share basis.

The Company issued 2,000,000 Class A common shares (1992 – 8,450,800) for cash proceeds of $19,250,000 (1992 – $75,000,850) pursuant to a public offering.

(b) At the Company's February, 1991 annual general meeting, the Company's shareholders confirmed the adoption of the Company's Shareholders' Rights Plan.

Under the plan, one share purchase right is issued in respect of each Class A and Class B common share outstanding as at May 24, 1990 and each common share issued thereafter.

Should any person or group, other than investment fund managers under certain circumstances or a bidder making a bid that satisfies the requirement of a "permitted bid" set forth in the plan, acquire or announce an intention to acquire, 20 percent or more of the total of the Company's Class A and Class B common shares, the rights, after a ten-day waiting period, will separate from the shares. The rights will then entitle each holder of common shares (other than the bidder) to acquire Class A common treasury shares of the Company, or, in certain circumstances, common shares of the bidder, at a 50 percent discount from the then prevailing market price.

Any person or group owning more than 5 percent but less than 20 percent of the outstanding common shares as at May 24, 1990 will be grandfathered under the plan so that they may make a permitted bid, provided not more than a further 2 percent of the outstanding shares are acquired, other than through a permitted bid acquisition or other approved acquisition under the plan. Similarly, any person or group owning 20 percent or more of the outstanding common shares as at May 24, 1990 is grandfathered so that the plan will not be activated unless such shareholding is increased by more than 2 percent.

The rights will remain outstanding until May, 2000 unless redeemed earlier by the Board of Directors. The plan is subject to reconfirmation by shareholders every five years.

The requirements of a "permitted bid" include the following:

- the bid must be made for all outstanding shares to all holders thereof;
- the bidder must not own more than 5 percent of the outstanding common shares, unless he did so at the time the plan was adopted;
- the bid must remain outstanding for 90 days; and
- not less than 50 percent of the outstanding shares held by persons other than the bidder or related parties must be tendered to the bid.

(c) The Company has a share option plan for key employees. To date, options have been granted to acquire 210,000 (1992 – 130,000) Class A common shares at prices from $8.375 to $17.25 per common share.

The Company has reserved 290,000 Class A common shares for possible future issuance under this plan.

10. Income taxes

The Company's effective income tax rate comprises the following:

	1993	1992
Combined basic Canadian federal and provincial income tax rate	43.0%	43.2%
Manufacturing and processing profits deduction	(5.8)	(4.3)
Lower effective tax rate on income of foreign subsidiary	(5.4)	(6.2)
Losses of subsidiary not tax effected	7.7	3.0
Non-taxable adjustments and other	5.7	(10.8)
Effective income tax rate	45.2%	24.9%
Actual provision for income taxes		
Current	$13,637,000	$2,189,000
Deferred (recovery)	(1,230,000)	975,000
	$12,407,000	$3,164,000

11. Income from discontinued operations

(In Thousands of Dollars)	1993	1992
Income from Anderson Exploration Ltd.	$ –	$ 2,106
Write-down of Oil and Gas Property	–	(467)
	$ –	$ 1,639

During 1992, the Company sold its investment in Anderson for net proceeds of $33,483,000 resulting in a gain of $2,001,000. In addition, income from Anderson of $105,000 was recorded under the equity method to February 29, 1992, the effective date on which the Company ceased to exercise significant influence over Anderson.

12. Pension plans

The Company maintains defined benefit pension plans for its employees. Actuarial valuation of these pension plans are carried out periodically and provide estimates of the present value of accrued pension benefits at a point in time, calculated on the basis of various assumptions with respect to pension plan costs and rates of return on investments.

The funded status of the plans is as follows:

	As at September 30	
(In Thousands of Dollars)	1993	1992
Present value of accrued benefits	$ 96,024	$ 88,465
Pension fund assets	$ 102,942	$ 97,558

The Company amortizes the difference between pension fund assets and accrued benefits over the expected average remaining service life of the plan participants. The amortization periods for the plans are currently fourteen years to eighteen years.

13. Contingent liabilities

(a) In May, 1992, a former 50 per cent shareholder of Lantic Sugar ("former shareholder") filed an action demanding payment from Jannock for the sum of $15,400,000 plus $2,240,000 in interest and expenses in respect of the sale by Jannock to BC Sugar of the initial 50 per cent interest in Lantic Sugar. The former shareholder alleges that Jannock sold to BC Sugar the shares that Jannock acquired from the former shareholder at a price or consideration greater than the price per share paid by Jannock to the former shareholder under an earlier agreement between it and Jannock, and the former shareholder asserts that it is entitled, under a provision in the agreement between Jannock and it, to 90 percent of alleged additional consideration. Under an indemnification clause in the purchase agreement between BC Sugar and Jannock, Jannock could seek to be indemnified by BC Sugar for liability, if any, in excess of $250,000 incurred by Jannock relating to this action.

13. Contingent liabilities – *continued*

The Company and its counsel are of the view that the correct interpretation of the purchase agreement is that no amount is owing to the former shareholder and consequently nothing will be owing to Jannock under the indemnification clause.

In addition, the former shareholder has claimed that any payment made by BC Sugar to Jannock pursuant to the indemnification clause is part of the "consideration" for the shares of Lantic Sugar to which the former shareholder is entitled. The former shareholder asserts that it has a right to claim 90 percent of any payments made pursuant to the indemnity. In a demand letter dated April 24, 1992, the former shareholder has asserted that if Jannock continues to claim indemnification for each payment it is required to make to the former shareholder, and if the payments are repeated successively, a total of $154,140,000 plus accrued interest would become payable to the former shareholder.

By judgement rendered September 16, 1992, the demand made by the former shareholder for an order directing BC Sugar to advise the former shareholder of payments made pursuant to the indemnification clause has been dismissed.

The Company and its counsel are of the view that the former shareholder's claim for 90 percent of any payment under the indemnity clause is entirely without merit.

(b) The Company, through Kalama, is involved in certain environmental, product liability and general liability litigation in the United States which is considered routine to the nature of the Specialty Chemicals business.

Additionally, Kalama is involved in specific environmental site investigation and clean-up activities at its Kalama and Garfield plants, a former manufacturing location and several Superfund sites.

Due to the uncertainties of the nature and extent of conditions at the sites, changing regulatory requirements and developing technological applications, the costs of remediation of these sites, which may be significant, cannot be specifically determined at this time.

Kalama has initiated legal actions against its insurers and a previous owner and operator of one of its facilities to cover costs and damages with respect to these matters. Based upon results obtained to date in these actions, management of Kalama is of the view that it is probable that it will be successful in recovering a material portion of its defence costs, costs of investigation and remediation of these sites and costs of prosecution of the legal actions against its insurers.

As a result of Kalama's ongoing investigations, management believes that the net outcome of environmental liabilities and the recoveries will not have a material effect on the Company's consolidated financial statements.

(c) Kalama has guaranteed the collection of certain accounts receivable of an affiliate in order for the affiliate to secure a bank line of credit in the amount of U.S. $5,000,000.

(d) The Company, through Chatterton, which ceased operation in June, 1992, and in conjunction with a previous owner of the site, is co-operating with regulatory authorities to investigate and remediate historical soil and groundwater conditions at the Delta, British Columbia site. Chatterton anticipates that remedial measures will be required at this site; however, investigations are not yet fully completed and the cost of remediation, which may be significant, cannot be specifically determined at this time. Chatterton has held ongoing discussions with the previous owner with respect to participation in the costs of remediation. It is not possible at this time to estimate the Company's eventual recovery.

As a result of Chatterton's ongoing investigations, management believes that the net outcome of environmental liabilities and the recoveries would not have a material effect on the Company's consolidated financial statements.

(e) The Company is involved in various other legal matters arising in the normal course of business. After taking into consideration legal counsel's evaluation of such actions, management is of the opinion that their outcome will not have a material effect on the Company's consolidated financial statements.

14. Net earnings per common share

(a) Basic earnings per share

Basic earnings per share has been calculated using the weighted average number of common shares outstanding during the year.

(b) Fully diluted earnings per share

Fully diluted earnings per share assuming the issuance of common shares by the Company under the key employee share option plan and the shareholders' rights plan are calculated at $.42 per share (1992 – $.46).

Net earnings for the current year's calculation of fully diluted earnings per share have been increased by $5,279,000 (1992 – $6,256,000), being the after-tax effect of the reduced interest charge upon exercising of the share options and purchase rights mentioned in Note 9, and assuming that the exercise occurred at the beginning of the year.

Although the issuance of common shares under the shareholders' rights plan, as disclosed in Note 9, has a dilutive effect on the current year's earnings per share, such issuance of common shares is unlikely under the terms of this plan. The possible issuance of common shares under that share option plan does not have a material effect on the current year's earnings per share.

15. Segmented information

The Company, through its subsidiaries, The British Columbia Sugar Refining Company, Limited, Lantic Sugar and RSI, operates primarily in the sugar industry which includes the refining, packaging and marketing of cane and beet sugar in Canada and the United States.

Geographic information for the Company's sugar operations is summarized as follows:

(In Thousands of Dollars)	Canada		United States		Consolidated	
	1993	1992	1993	1992	1993	1992
Revenues	$438,322	$220,539	$267,851	$ 60,906	$706,173	$281,445
Operating earnings	$ 51,350	$ 29,620	$ 1,870	$ 650	$ 53,220	$ 30,270
Income from Lantic Sugar	–	532	–	–	–	532
					53,220	30,802
Interest expense	(18,648)	(15,644)	(7,142)	(1,939)	(25,790)	(17,583)
Income taxes	(12,398)	(3,147)	(9)	(17)	(12,407)	(3,164)
Income from discontinued operations	–	1,639	–	–	–	1,639
Net earnings (loss)	$ 20,304	$ 13,000	$ (5,281)	$ (1,306)	$ 15,023	$ 11,694
Identifiable assets	$168,315	$193,366	$132,969	$122,283	$301,284	$315,649
Investment in Specialty Chemicals	55,135	53,135	–	–	55,135	53,135
Other investments	2,778	2,768	–	–	2,778	2,768
Goodwill	152,976	158,695	–	–	152,976	158,695
	$379,204	$407,964	$132,969	$122,283	$512,173	$530,247
Depreciation and amortization	$ 10,715	$ 5,375	$ 5,495	$ 1,436	$ 16,210	$ 6,811
Purchase of fixed assets	$ 5,615	$ 3,343	$ 2,183	$ 989	$ 7,798	$ 4,332

The accounts of Lantic Sugar and RSI have been included in the geographic information on the equity basis up to June 29, 1992 and on the consolidated basis commencing June 30, 1992.

15. Segmented information – *continued*

Reconciliation of segmented information for the Company's sugar operations summarized above and segmented information for Specialty Chemicals as disclosed in Note 3 is as follows:

	Sugar Operations		Specialty Chemicals		Consolidation Adjustments		Consolidated	
	1993	1992	1993	1992	1993	1992	1993	1992
Identifiable assets	$301,284	$315,649	$70,200	$60,668	$ 14,145	$ 17,214	$385,629	$393,531
Investment in Specialty Chemicals	55,135	53,135	–	–	(55,135)	(53,135)	–	–
Other investments	2,778	2,768	1,816	2,637	–	–	4,594	5,405
Goodwill	152,976	158,695	–	–	–	–	152,976	158,695
	$512,173	$530,247	$72,016	$63,305	$(40,990)	$(35,921)	$543,199	$557,631
Depreciation and amortization	$ 16,210	$ 6,811	$ 3,742	$ 4,460	$ (3,742)	$ (4,460)	$ 16,210	$ 6,811
Purchase of fixed assets	$ 7,798	$ 4,332	$ 4,232	$ 4,076	$ –	$ –	$ 12,030	$ 8,408

Auditors' Report

To the Shareholders of BC Sugar Refinery, Limited

We have audited the consolidated balance sheets of BC Sugar Refinery, Limited as at September 30, 1993 and 1992 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1993 and 1992 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Vancouver, Canada
November 23, 1993

PEAT MARWICK THORNE
Chartered Accountants

Directors

J.C. Anderson
Chairman and Chief Executive Officer of Anderson Exploration Ltd.

R. Stuart Angus*
Partner, Smith, Lyons, Torrance, Stevenson & Mayer

William C. Brown
President and Chief Executive Officer of the Company

Hon. Pat Carney, P.C.
Senate of Canada

Peter A. Cherniavsky
Chairman of the Company

John W. Pitts*
President and Chief Executive Officer of MacDonald Dettwiler and Associates Ltd.

H. Richard Whittall
Corporate Director

F. Cameron Wilkinson*
Corporate Director

Leo E. Labrosse
Corporate Director

Officers of the Company

Peter A. Cherniavsky
Chairman

William C. Brown
President and Chief Executive Officer

Andre O. Bergeron
Vice President

Claudio F. Bussandri
Vice President

David M.S. Elliott
Vice President

Gregory J. Hoskins
Vice President

James W. Hudson
Vice President Finance, Secretary and Chief Financial Officer

Ian D. Maitland
Controller

Roy E. Spires
Treasurer

** Member of Audit Committee*

Operating Company Management

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123 Rogers Street
Vancouver, B.C. V6A 3N2
(604) 253-1131

W. C. Brown
President and Chief Executive Officer

D.M.S. Elliott
Executive Vice President and Chief Operating Officer

J. W. Hudson
Vice President, Finance and Secretary

H.M. Hayward
Vice President, Technical Operations

D.N. Hurl
Vice President, Sales and Marketing

Vancouver Refinery

D.E. Webster
Refinery Operations Manager

Taber Factory

D.J. Emek
General Manager

Winnipeg Factory

J.G. Zednai
General Manager

Eastern Operations

Lantic Sugar Limited
1 Westmount Square
Westmount, Quebec H3Z 2P9
(514) 939-3939

W. C. Brown
Chairman and Chief Executive Officer

C. F. Bussandri
President and Chief Operating Officer

A. O. Bergeron
Executive Vice President and Secretary

C. R. Brown
Vice President, Quality Assurance

J. Dussault
Vice President, Human Resources

A.A. Ferrier
Vice President, Sales and Marketing

J.J. Hughes
Vice President, Purchasing and Raw Sugar

D. L. Lafrance
Vice President, Finance

Saint John Refinery

J.B. Wheatley
Vice President, Production and Refinery Manager

Montreal Refinery

J. Gareau
Refinery Manager

Toronto Distribution Centre

A. Zabinsky
Manager

U. S. Operations

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(914) 963-2400

W. C. Brown
Chairman and Chief Executive Officer

G.J. Hoskins
President and Chief Operating Officer

D.W. Brainard
Vice President, Human Resources

V.J. Cala
Vice President, Consumer Products

A.J. Perrone
Vice President, Sales and Marketing

J. F. Preston
Vice President, Purchasing and Raw Sugar

Yonkers Refinery

R.L. Knecht
Vice President, Production

BC Sugar

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