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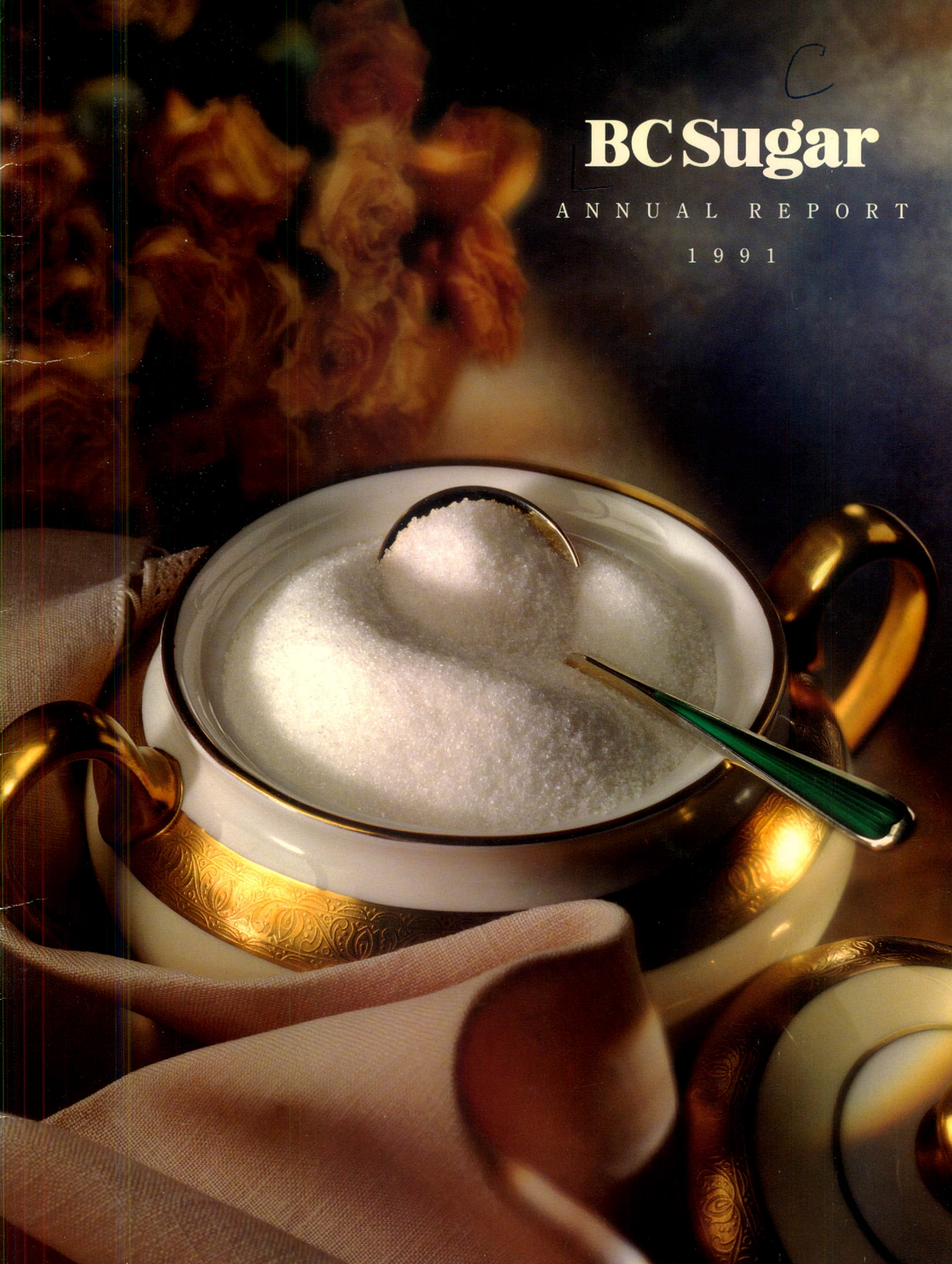
BC Sugar

ANNUAL REPORT

1991



Financial Highlights

(Restated to reflect investment in Specialty Chemicals on the equity basis of accounting)

(000's omitted, except per share amounts)

Years Ended September 30	**1991**	1990	1989
Revenues	**$161,187**	$184,261	$162,950
Earnings from continuing operations	**$ 12,025**	$ 13,497	$ 14,784
Net earnings (loss)	**$ (8,554)**	$ 11,603	$ 23,417
Average net shares outstanding	**14,271**	14,131	13,773
Per Common Share			
Earnings from continuing operations	**$ .84**	$ .96	$ 1.07
Net earnings (loss)	**$ (.60)**	$ .82	$ 1.70
Dividends	**$ .80**	$ .80	$ .80

To BC Sugar Shareholders

The 1991 fiscal year was one of transition for BC Sugar. In March the Company concluded the acquisition of 50 percent of the shares of Lantic Sugar for a purchase price of $110 million.

The Canadian operations of Lantic, represented by cane refineries in Saint John, New Brunswick and in Montreal, Quebec, refine and market the equivalent of approximately two and one-half times the historical sugar production of BC Sugar's western Canadian facilities.

William C. Brown, President and Chief Executive Officer.

The Refined Sugars Inc. refinery, wholly-owned by Lantic and located in Yonkers, New York, currently produces and markets sugar products equivalent to about one half of total Canadian production. A wider geographic and sales volume base and a variety of operational synergies will enhance BC Sugar's position as a large and competitive participant in the North American sugar industry. The Lantic purchase represents an important and challenging milestone in the evolution of BC Sugar.

Under a shareholders' agreement between Jannock Limited and BC Sugar, Jannock has the right to sell all of its remaining shares in Lantic to BC Sugar after December 31, 1991, and BC Sugar has the right to buy Jannock's remaining interest after December 31, 1993. The price to be paid by BC Sugar will be determined under a formula predicated upon the financial performance of Lantic. The methods of financing the second-half purchase price remain under review.

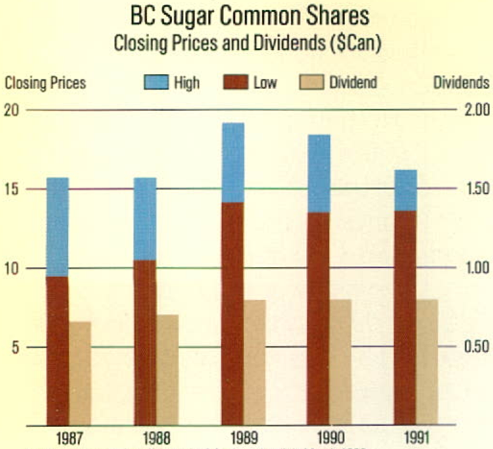
Consistent with its focus on the sugar business, BC Sugar, in July, initiated steps to divest itself of its specialty chemicals interests. This process is currently under way, and it is anticipated that the sale will be completed within the next fiscal year. Proceeds from the sale will be used to repay long-term debt.

The second quarter Report to Shareholders discussed the decision to employ the March 31, 1991 carrying value of the Company's investment in specialty chemicals in determining the gain on the eventual disposition of these assets. Because the depressed condition of the world market for phenol has prolonged the planned divestiture period, the carrying value of the investment at September 30, 1991 now reflects losses incurred in the specialty chemicals business for the full fiscal year.

Since the sale of the Company's specialty chemicals business is planned for 1992, BC Sugar's investment in specialty chemicals has been recorded on the equity basis of accounting. In order that the income statement appropriately reflects the results of continuing operations, operating results for specialty chemicals have been disclosed as "loss from discontinued operations."

Earnings from continuing operations amounted to $12.03 million, or 84 cents per share, for the 1991 fiscal year, compared to $13.50 million, or 96 cents per share in fiscal 1990. Earnings from continuing operations include one half of the earnings of Lantic Sugar for the nine-month period from the effective acquisition date of December 31, 1990 to September 30, 1991. During this period, Lantic contributed $4.03 million to earnings.

Loss from discontinued operations for 1991 amounted to $20.6 million, or $1.44 per share, compared to $1.9 million and 14 cents per share in 1990.



After giving retroactive effect to the 2-for-1 stock split in March, 1989

Cash from operations totalled $10.4 million compared to $6.9 million last year. The annual dividend rate for 1991 remained unchanged at 80 cents per share. It is anticipated that the current level will be maintained for 1992. The Company's Dividend Reinvestment Plan was terminated following the payment of the February, 1991 dividend.

Earnings from sugar continue to be affected by the presence of dumped imported refined sugar and by low-priced corn sweeteners in the domestic marketplace. Lower world market prices for raw sugar have contributed towards the ability of both BC Sugar and Lantic to meet this competition. However, this advantage is in part offset by the negative impact of lower returns from the Company's beet sugar operations.

Due to export incentive programs, tariffs and quotas, the United States has, during the past decade, operated in a manner inconsistent with GATT (the General Agreement on Tariffs and Trade), and latterly, with its Free Trade Agreement obligations to Canada. The effect of this has been the reversal of the Canada-U.S. refined sugar trade balance, and three times as much refined sugar is now imported into Canada from the U.S. as Canada is permitted to export into that much larger market.

In spite of a GATT arbitration ruling that found in Canada's favour, the Canadian government announced, in April, that no action would be taken in retaliation for further import restrictions placed on Canadian sugar blends by the United States in January, 1989. Alternative means of addressing this trade imbalance continue to be evaluated, and a summary of the issue is covered in the Sugar section of this Report.

Canada is currently involved in negotiations with the United States and Mexico to establish a North American Free Trade Agreement (NAFTA). The Company supports, in principle, the concept of such an agreement. In a Canadian Sugar Institute submission on NAFTA to the Federal Government, it is argued that the agreement should provide an opportunity to establish fairer trade rules for Canada respecting sugar and products that contain sugar.

A more detailed review of corporate financial performance may be found in the section of this Report entitled "Management's Discussion and Analysis." Separate sections are devoted to each of sugar, oil and gas and specialty chemicals.

The Board of Directors extends its thanks to all employees for their efforts on behalf of BC Sugar and its shareholders during these challenging times.

On behalf of the Board

President and Chief Executive Officer

December 1, 1991
Vancouver, B.C.

Sugar

Paul Bartel,
Liquid Sugar Operator,
BC Sugar.

Don Webster,
Refinery Operations Manager,
BC Sugar.

Michelle Whittaker,
Receptionist, BC Sugar.

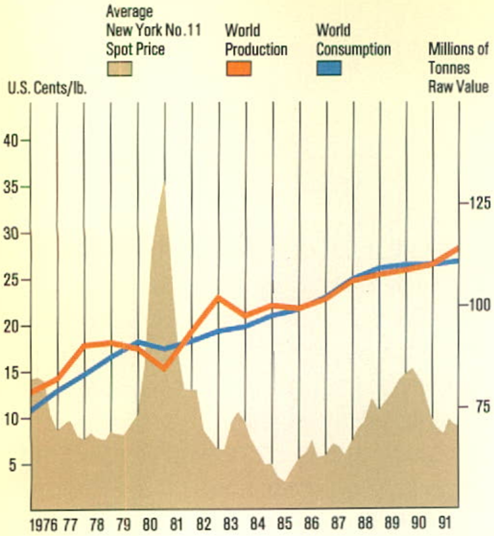
Earnings from sugar were reasonably stable during the year, with world raw sugar prices averaging approximately 9 cents U.S. per pound. These low prices are expected to remain for the foreseeable future given the projected continuing surplus in world sugar stocks.

The high U.S. sugar price support system places high input costs on U.S. cane refineries. To offset these costs, the United States introduced an Export Incentive Program (EIP) in 1983. This measure has stimulated a significant increase in U.S. exports of refined sugar to Canada and elsewhere since that date. During the same period, Canadian exports of sugar to the U.S. have been the target of repeated U.S. curtailment actions.

The systematic reduction of Canadian access to the U.S. market through import quotas and other non-tariff barriers, in addition to the use of the EIP by U.S. refiners to gain an increased share of the Canadian market, has led to a substantial shift in sugar shipments between the two countries. In the early eighties, Canada exported about 75,000 tonnes of refined sugar annually to the U.S., and imported some 25,000 tonnes. By the end of the decade exports from Canada were under 30,000 tonnes per year while imports from the U.S. had risen to about 80,000 tonnes annually. The U.S. consumption of caloric sweeteners, including sugar, is over ten times as large as Canada's.

Certain U.S. sugar programs were considered to be inconsistent with the United States' obligations under both GATT and the Free Trade Agreement, and were appealed by the Canadian government. Despite a GATT arbitration ruling which found in Canada's favour, the Canadian government decided in April, 1991 not to place tariffs on imported refined sugar in retaliation for additional import restrictions placed on Canadian sugar blends by

World Sugar Prices, Production and Consumption



the United States. This was a significant setback to the entire Canadian sugar industry.

In its decision, the Federal Government acknowledged that the practices of the United States were in conflict with the terms of the Free Trade Agreement. However, it was not prepared to support a proposal for tariffs as it was felt such measures might increase domestic sugar prices. Other remedies to the U.S. unilateral action are being considered, but in the meantime, the Canadian border remains unrestricted to U.S. imports while severe restrictions and embargoes apply in the opposite direction.

BC Sugar

BC Sugar operates a cane sugar refinery in Vancouver, British Columbia and beet sugar factories in both Taber, Alberta and Winnipeg, Manitoba.

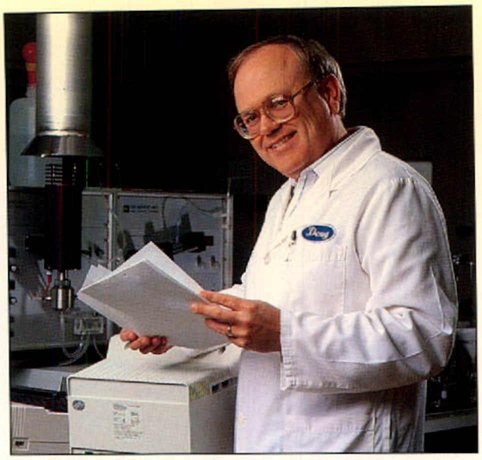
A significant brand name change was undertaken during the year with the move to the new ROGERS' logo for all BC Sugar products. Prior to this change, the Company's products were marketed under distinctive labels for each of Alberta Sugar, Manitoba Sugar and BC Sugar. The name of the Company's founder provides strong product identity and streamlines distribution while allowing a unified approach to sugar packaging from all three of the Company's divisions.

Dr. Richard Kitchen, Senior Research Chemist with Anne Kitchen, Laboratory Technician, at the BC Sugar Research Laboratory.

Brian Rogers, General Sales Manager, BC Sugar, and grandson of the founder, B.T. Rogers, with the new Rogers' packaging.

Sugar

Doug Emek, Agricultural Superintendent, in the Alberta Sugar tare laboratory.



Walter Epp, Plant Superintendent, Manitoba Sugar.

In the second quarter of this fiscal year, Alberta Sugar and Manitoba Sugar completed processing of sugar beets harvested in the fall of 1990. The campaign for both factories was among the most efficient in recent years, with total sugar production from the two facilities approaching record levels.

With satisfactory growing conditions in Alberta and Manitoba last spring and early summer, sugar beet crops progressed well, and above-average crops were produced for the 1991 fall harvest. Expectations are that sugar production from the two facilities will exceed previous records.

Lantic Sugar

With the acquisition of Lantic, and the resultant wider geographic and sales volume base, BC Sugar becomes strategically better placed in the highly competitive North American sugar industry. The Canadian operations of Lantic are represented by cane refineries in Saint John, New Brunswick and Montreal, Quebec. Lantic's wholly-owned subsidiary, Refined Sugars Inc., operates a refinery in Yonkers, New York.

The purchase price of BC Sugar's 50 percent interest in Lantic was initially financed by bank debt, and opportunities for reducing the level of debt remain under review. Bank interest costs associated with the acquisition are reflected in increased long-term debt interest expense.

The financial results of Lantic for the nine months ended September 30, 1991, were below both BC Sugar's and Lantic's earlier expectations. Contributing factors include the displacement of historic domestic sales volumes in Canada by dumped imported refined sugar and reduced sales returns relating to this unfair trade practice. The operations of the R.S.I. refinery have experienced stiff competition from American beet sugar producers who benefit from subsidized prices and have experienced larger than usual sugar beet crops. Improvement in the financial performance of Lantic is expected for 1992.

Greg Hoskins, President, Refined Sugars, Inc.; Claudio Bussandri, President and Chief Executive Officer, Lantic Sugar Limited; and André Bergeron, Executive Vice-President, Lantic Sugar Limited.

Specialty Chemicals

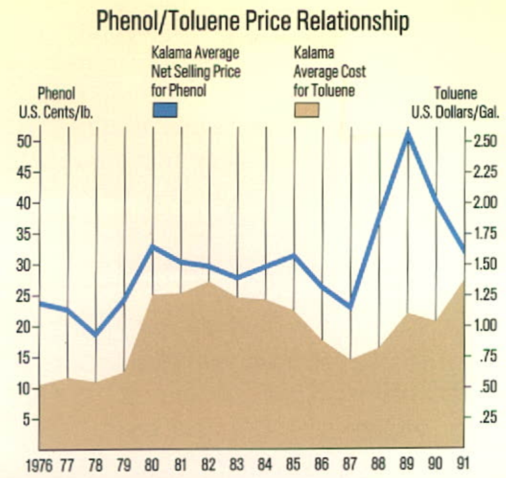
With the business of Kalama Chemical, Inc., and Chatterton Petrochemical Corporation continuing to be affected by the slowing world economy, BC Sugar's specialty chemicals division operated at a loss in fiscal 1991.

The decline in world prices for phenol has persisted, but prices for toluene, the petroleum-based feedstock for each of the Kalama and Chatterton plants, have not fallen correspondingly. Phenol sales volumes have declined as a result of the downturn in housing starts and the closure of a number of wood operations. Demand and margins for other specialty chemicals products remain at relatively better levels.

The final months of the fiscal year saw a slight recovery in operating performance for these plants, due primarily to decreased prices for toluene feedstock. The improvement in the profitability of specialty chemicals operations is anticipated to continue into fiscal 1992, although recovery will mirror general economic conditions.

Environmental considerations continue to receive priority attention at each plant and significant expenditures continue to be made at each location to preserve compliance with evolving legislation.

It is anticipated that this segment of BC Sugar's operations will be sold to a participant in the North American chemical products market in fiscal 1992.



Bob Kirchner, President, BC Sugar Chemicals Division with Ed Stipkala, Vice-President–Operations, Chatterton Petrochemical Corp.

Oil and Gas

J. C. Anderson,
Chairman, President and
Chief Executive Officer,
Anderson Exploration Ltd.

Anderson Exploration Ltd. reported increased production levels during fiscal 1991. Natural gas production averaged 77 million cubic feet per day, compared to 66 million cubic feet per day last year, while oil and natural gas liquids production averaged 5,428 barrels per day compared to 4,983 barrels per day last year.

Although oil and natural gas liquids prices were higher in 1991 than in 1990, these prices, combined with the increases in production, were insufficient to offset lower gas prices and higher current taxes, such that funds flow from operations decreased to $36.3 million in 1991 from $38.2 million in 1990. Anderson Exploration's average gas price in 1991 was $1.68 per thousand cubic feet as opposed to $1.93 in 1990.

Anderson Exploration's share of gas production to its major buyer, Alberta and Southern Gas Co. Ltd., from the Company's major field, Dunvegan, was down due to market restrictions by about 4.4 million cubic feet per day from 1990. However, production resulting from newly installed facilities in other fields more than compensated for this decrease. Notable in this regard was the Wildmere Plant in eastern Alberta which came on-stream on November 21, 1990 and contributed an average of 11.3 million cubic feet per day to the Company's gas production stream during the year.

For the twelve months ended September 30, 1991, BC Sugar's 17.9 percent share of the earnings of Anderson contributed $1.1 million to earnings, compared to $1.8 million for fiscal 1990.

In addition, BC Sugar's earnings for the twelve months ended September 30, 1991 include a first quarter gain of $1.2 million arising on the issue of common shares by Anderson.

HIGHLIGHTS	**1991**	1990
Financial (in Thousands of Dollars)		
Revenues (net of royalties)	**$ 72,000**	$ 66,300
Net earnings	**6,000**	13,200
Funds flow from operations	**36,300**	38,200
Capital expenditures	**45,400**	74,500
Long-term debt	**73,000**	75,000
Shareholders' equity	**191,800**	182,700
Reserves		
Natural gas (billions of cubic feet)		
–proven	**619**	575
–proven plus probable	**907**	872
Oil and natural gas liquids (millions of barrels)		
–proven	**15.1**	16.4
–proven plus probable	**22.3**	24.0
Production		
Natural gas (millions of cubic feet per day)	**77**	66
Oil and natural gas liquids (barrels per day)	**5,428**	4,983

Management's Discussion and Analysis

BC Sugar Refinery, Limited

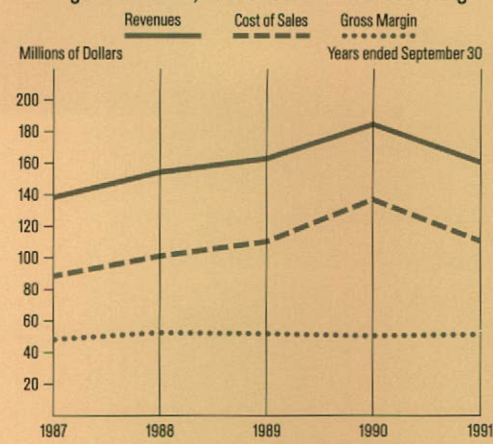
Results of Operations

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.

Comparison of 1991 and 1990 Earnings

Consolidated revenues have decreased by $23 million. This decrease is primarily attributable to a fall in world raw sugar prices, resulting in an average decrease of $89 per tonne in the refined sugar prices. No significant change in Company sales volume has occurred. Chart A demonstrates the close relationship between world raw sugar prices, as reflected in cost of sales, and the revenues of the Company.

A Sugar Revenues, 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. When quantities of raw sugar purchased do not match refined sugar sales commitments, the Company follows a policy of hedging any material differences to eliminate the commodity market risk.

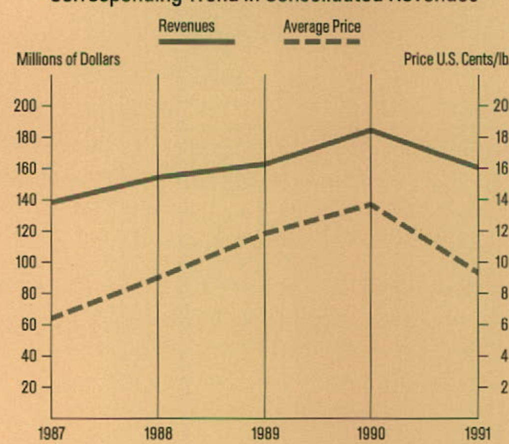
The average world market price for raw sugar in U.S. cents per pound over the last five years and the corresponding trend in consolidated revenues is illustrated by chart B.

In 1991 cost of sales decreased by $24 million from the 1990 level, $19 million of which is attributable to the fall in the cost of raw cane sugar, as described above. The remaining decrease is primarily due to a correspondingly lower share of market returns paid to Alberta and Manitoba sugar beet growers. Under the Company's agreement with the sugar beet growers, the growers' percentage share of net returns is determined by sugar prices realized. As refined sugar prices have fallen, the growers' share has declined, thus reducing their share of net returns.

Selling, general and administrative expenses remain comparable between years except for an increase of approximately $500,000 in selling expenses, resulting from increased storage and distribution expenses in the prairies.

The increase in long-term debt interest is attributable to the additional $110 million of long-term debt, used to finance the purchase of the shares of Lantic Sugar Limited.

B Average World Raw Sugar Price and Corresponding Trend in Consolidated Revenues



Acquisition of 50 percent of Lantic Sugar Limited

The planned acquisition of 50 percent of the common shares of Lantic Sugar Limited ("Lantic Sugar") from Jannock Limited ("Jannock") was accomplished effective December 31, 1990 for cash consideration of $110 million.

The investment in Lantic Sugar has been accounted for in the financial statements of BC Sugar under the equity method.

Management's Discussion and Analysis

BC Sugar Refinery, Limited

With the Lantic Sugar acquisition, BC Sugar becomes a major participant in the North American sugar industry. The Canadian operations of Lantic Sugar are represented by cane refineries in Saint John, New Brunswick and Montreal, Quebec. These refineries, together with the refinery in Yonkers, New York, owned and operated by Lantic Sugar's U.S. subsidiary, account for sugar volumes equivalent to approximately five times BC Sugar's current annual production.

A shareholders' agreement between Jannock and the Company contains the right of Jannock to sell all its remaining shares in Lantic Sugar to the Company after December 31, 1991 and the right of the Company to purchase all of Jannock's remaining shares in Lantic Sugar after December 31, 1993. The price paid by the Company for Jannock's remaining 50 percent interest will be determined pursuant to a formula based on earnings on exercise of the right.

As can be seen from the condensed financial information detailed in note 3 to the consolidated financial statements, the acquisition of the second 50 percent of the shares will have a major impact on all aspects of the Company's financial statements.

Acquisition of the first half of Lantic Sugar was financed by bank debt. Proceeds from the planned divestiture of the Company's specialty chemicals interests will be applied against this debt, or, in the event that Jannock exercises its put option in early 1992, will be employed to partially finance the second-half acquisition.

Income from Investments

Income from Lantic Sugar and from Anderson Exploration Ltd. ("Anderson") represents the Company's share of income as reported by these entities.

Included in 1991 income from Anderson is a gain of $1.2 million arising from the excess purchase price paid over net book value on the exercise of Special Warrants in Anderson. The Company's interest in Anderson was reduced from 20.1 percent to 17.9 percent primarily as a result of this issuance. Since the Company is able to exercise significant influence over Anderson, the Company has continued to account for this investment on the equity basis.

Discontinued Operations

As a result of the Company's strategic decision to purchase Lantic Sugar and focus on the sugar business, the Company adopted a formal plan to dispose of its investment in Specialty Chemicals, which is comprised of the wholly-owned subsidiaries Kalama Chemical, Inc. ("Kalama") and Chatterton Petrochemical Corporation ("Chatterton"). The Company has engaged an investment firm to assist in the divestiture and expects to dispose of this investment within the next fiscal year. The proceeds from the sale of Specialty Chemicals will be used to reduce bank borrowings.

As a result of the formal plan for disposal, the Company ceased accounting for Specialty Chemicals on the consolidated basis as at March 31, 1991 and has accounted for the investment under the equity method. The consolidated financial statements, which previously included the accounts of Specialty Chemicals on a consolidated basis, have been restated retroactively to reflect the investment on the equity basis.

The loss from discontinued operations of $20,579,000 represents both the losses reported by Specialty Chemicals for the period to September 30, 1991, and a provision to bring the value of the investment as shown on the balance sheet to an amount not exceeding its estimated net realizable value. The primary cause of the losses incurred in Specialty Chemicals is the depressed state of the world phenol market, the primary product of this operating unit.

Net Earnings

In 1991, BC Sugar recorded a net loss of $8.6 million. This compares to 1990 net earnings of $11.6 million. On a per common share basis, net earnings decreased from $0.82 per common share in 1990 to a net loss of $0.60 per common share in 1991. The main factors contributing to this decrease are those discussed above.

External and Industry Factors Impacting Operating Results

BC Sugar's sugar products are marketed primarily in western Canada. The volume and pricing of these products are not significantly affected by adverse changes in the economy. The Company faces competition from high fructose corn syrup, particularly when world sugar prices rise, and from refined sugar imported from the United States, the Far East and the European Economic Community. Canada does not impose import quotas nor meaningful tariffs for sugar or other sweeteners. In 1989, the Company implemented certain ongoing incentive programs to help counter these competitive factors and to stimulate sales.

These factors have reduced the net contribution on a per tonne basis and may continue to do so in the coming year. Management does not believe that there will be other significant changes affecting volume and net returns in 1992, when compared with 1991.

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.

Effects of Changing Prices

The Company does not believe its business is affected 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 1991 or 1990.

Liquidity and Capital Resources

Cash requirements for working capital and the majority of capital expenditures have historically been met with funds generated from operations. Management believes that cash generated by operations and changes in working capital, together with bank credit lines, will be sufficient to meet its working capital and capital expenditure requirements for 1992. Short-term cash requirements resulting from differences in the timing of purchases and sales are met by a Canadian $50 million revolving demand loan facility arranged with a Canadian bank. The ability to borrow in U.S. funds is included in this facility.

The Company's acquisition of its subsidiary companies and its investment in Anderson have been financed from cash flows and loan facilities. The investment in Lantic Sugar has been financed from loan facilities, resulting in an increase of $110 million in long-term debt in 1991.

Management's Discussion and Analysis

BC Sugar Refinery, Limited

The long-term loan facilities comprise a Canadian $70 million one-year, revolving term loan facility, convertible into a term loan at the Company's option with interest at prime plus 1/4 percent, and a Canadian $70 million term loan bearing interest at bank prime plus 1/4 percent, maturing December 31, 2002. The Company is required to maintain certain financial ratios which reflect normal bank requirements.

The Company has entered into an interest swap arrangement which matures March 31, 1998. Under the arrangement, interest is fixed at 10.13 percent per annum on an amount of $70 million.

The Company has recently negotiated an increase to $70 million in the operating loan and an increase of $25 million in available term loan facility.

Management makes use of standard solvency ratios to monitor liquidity. Due to the increased bank debt, there have been increases in liabilities which are reflected in most of these ratios. Although the debt to equity ratio is not as favourable as in the previous year, the Company continues to have both significant unused borrowing capacity and positive working capital.

Estimated fixed asset expenditures for 1992 are $3.4 million, equal to actual fixed asset expenditures of $3.4 million in 1991. As in the prior year the Company, in 1991, did not require any major capital additions. There were only two purchases greater than $500,000: sugar packing equipment and power house controls. The remaining purchases were for various pieces of equipment used in operations. There were no material commitments for fixed asset expenditures at September 30, 1991.

Future Results

The year ended September 30, 1991 has been a transitional year for the Company, with the acquisition of 50 percent of Lantic Sugar and the formal plan for disposal of Specialty Chemicals forming the groundwork for the future direction of the Company.

Management anticipates that the volume and contribution of sugar sales derived from existing sugar operations in 1992 will be similar to that of the current year.

Ignoring the financial impact of the above transition, operating income from sugar operations is slightly increased over the prior year. This performance supports management's long-term strategy of streamlining the Company, disposing of non-sugar assets and becoming a major participant in the North American sugar industry.

Five-Year Review

(Restated to reflect investment in Specialty Chemicals on the equity basis of accounting)

(000's omitted, except per share amounts)

Financial	**1991**	1990	1989	1988	1987
Revenues	**$161,187**	$184,261	$162,950	$153,218	$138,121
Earnings from continuing operations	**$ 12,025**	$ 13,497	$ 14,784	$ 14,998	$ 15,460
Income (loss) from discontinued operations	**(20,579)**	(1,894)	8,633	8,565	2,509
Earnings (loss) before extraordinary items	**(8,554)**	11,603	23,417	23,563	17,969
Extraordinary items	–	–	–	13,295	–
Net earnings (loss)	**$ (8,554)**	$ 11,603	$ 23,417	$ 36,858	$ 17,969
Cash from operations	**$ 10,368**	$ 6,925	$ 25,185	$ 14,271	$ 14,062
Dividends	**$ 11,468**	$ 11,306	$ 10,698	$ 8,786	$ 7,740
Special dividend	–	–	–	$ 36,612	–
Long-term debt	**$140,000**	$ 30,000	$ 30,000	$ 30,000	$ 30,000
Shareholders' equity	**$ 75,480**	$ 95,042	$ 89,663	$ 73,896	$ 64,718
Per common share					
Earnings from continuing operations	**$ .84**	$ .96	$ 1.07	$ 1.18	$ 1.26
Income (loss) from discontinued operations	**(1.44)**	(.14)	.63	.68	.21
Earnings (loss) before extraordinary items	**(.60)**	.82	1.70	1.86	1.47
Extraordinary items	–	–	–	1.05	–
Net earnings (loss)	**$ (.60)**	$ .82	$ 1.70	$ 2.91	$ 1.47
Other Information					
Average net shares outstanding (000's omitted)	**14,271**	14,131	13,773	12,664	12,278
Degree of Canadian registration of common shares	**96%**	96%	96%	97%	96%

Statement of Earnings

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

(In Thousands of Dollars)	1991	1990 (restated– Note 1(a))
Revenues	$161,187	$184,261
Costs and expenses		
Cost of sales	110,217	134,275
Selling, general and administrative	21,884	21,152
Depreciation	3,517	3,432
Long-term debt interest	12,115	4,101
Other interest	3,877	2,925
Total costs and expenses	151,610	165,885
	9,577	18,376
Income taxes (Note 8)	3,932	6,643
Earnings before undernoted items	5,645	11,733
Income from Lantic Sugar Limited (Note 3(b))	4,030	–
Income from Anderson Exploration Ltd. (Note 4(a))	2,350	1,764
Earnings from continuing operations	12,025	13,497
Loss from discontinued operations (Note 5)	(20,579)	(1,894)
Net earnings (loss)	$ (8,554)	$ 11,603
Per common share		
Earnings from continuing operations	$ .84	$ .96
Loss from discontinued operations	(1.44)	(.14)
Net earnings (loss) (Note 11)	$ (.60)	$ .82

Statement of Retained Earnings

	1991	1990
Balance, beginning of year	$ 33,468	$ 33,171
Net earnings (loss)	(8,554)	11,603
	24,914	44,774
Dividends	11,468	11,306
Balance, end of year	$ 13,446	$ 33,468

Balance Sheet

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

(In Thousands of Dollars)	1991	1990
Assets		(restated – Note 1(a))
Current Assets		
Accounts receivable	**$ 18,924**	$ 20,625
Inventories	**21,320**	20,447
Investment in Specialty Chemicals (Note 5)	**51,135**	–
Total current assets	**91,379**	41,072
Investments (Note 2)	**152,537**	103,914
Fixed Assets		
Property, plant and equipment	**98,156**	94,833
Less accumulated depreciation	**80,149**	76,734
Total fixed assets	**18,007**	18,099
	$261,923	$163,085
Liabilities		
Current Liabilities		
Bank loans, secured	**$ 31,118**	$ 19,783
Accounts payable and accrued liabilities	**12,104**	12,014
Total current liabilities	**43,222**	31,797
Long-Term Debt (Note 6)	**140,000**	30,000
Deferred Income Taxes	**3,221**	6,246
Total liabilities	**186,443**	68,043
Shareholders' Equity		
Share Capital (Note 7)		
Common shares	**61,362**	60,004
Preferred shares	**1,570**	1,570
	62,932	61,574
Retained Earnings	**13,446**	33,468
	76,378	95,042
Foreign exchange adjustment	**(898)**	–
Total shareholders' equity	**75,480**	95,042
	$261,923	$163,085

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

Contingent liabilities – Note 10

Statement of Changes in Financial Position

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

(In Thousands of Dollars)	1991	1990 (restated – Note 1(a))
Cash provided by (used for)		
Operations		
Funds provided from operations (below)	$ 9,450	$ 16,091
Changes in non-cash working capital	918	(9,166)
Cash from operations	10,368	6,925
Cash dividends paid	(10,110)	(9,154)
	258	(2,229)
Financing		
Increase in long-term debt	110,000	–
Issue of common shares	1,358	3,193
Dividends reinvested in common shares	(1,358)	(2,178)
	110,000	1,015
Investments		
Investment in Lantic Sugar Limited	(110,790)	(363)
Investment in Specialty Chemicals	(9,000)	(10,624)
Additions to fixed assets	(3,425)	(3,169)
Dividends from Lantic Sugar Limited	1,472	–
Other investments	150	(36)
	(121,593)	(14,192)
Increase in current bank loans	11,335	15,406
Current bank loans at beginning of year	19,783	4,377
Current bank loans at end of year	$ 31,118	$ 19,783

FUNDS PROVIDED FROM OPERATIONS

	1991	1990
Earnings from continuing operations	$ 12,025	$ 13,497
Depreciation	3,517	3,432
Income from Lantic Sugar Limited	(4,030)	–
Income from Anderson Exploration Ltd.	(2,350)	(1,764)
Depletion of oil and gas property	192	188
Loss from investments	96	738
	(2,575)	2,594
Funds provided from operations	$ 9,450	$ 16,091

Notes to Financial Statements

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1991 and 1990

1. Significant accounting policies

a) Basis of presentation

The consolidated financial statements include the accounts of the wholly owned subsidiary company, The British Columbia Sugar Refining Company, Limited.

The Company's 50 percent interest in Lantic Sugar Limited ("Lantic Sugar") and 17.9 percent interest (1990–20.1 percent) in Anderson Exploration Ltd. ("Anderson") have been accounted for on the equity basis (Notes 3(b) and 4(a)).

The Company's investment in Specialty Chemicals, which is comprised of the wholly owned subsidiaries Kalama Chemical, Inc. ("Kalama") and Chatterton Petrochemical Corporation ("Chatterton"), has been recorded at a value not exceeding its estimated net realizable value as a result of the adoption of a formal plan to dispose of Specialty Chemicals (Note 5). These consolidated financial statements, which previously included the accounts of Specialty Chemicals on a consolidated basis, have been restated retroactively to reflect the investment on the equity basis.

b) Inventories

Sugar inventory is valued at the lower of average cost and quoted market value adjusted for unrealized gains or losses on forward sugar purchases and sales commitments and on sugar futures contracts. 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 replacement value.

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 inventory and related purchases and sales commitments. Hedging gains and losses on these futures contracts and options are deferred and recognized in cost of sales. Any gain or loss on unhedged commitments is recognized currently.

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.

c) Depletion

The Company and Anderson follow the full cost method of accounting whereby all costs related to the exploration and development of oil and gas properties, whether productive or non-productive, are capitalized and depleted on the unit-of-production method based on estimated proven reserves. A ceiling test is applied to capitalized costs to ensure that such costs do not exceed the estimated future net revenues from production of proven reserves, at prices and operating costs in effect at the year end, plus the estimated fair market value of unevaluated properties.

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 on the diminishing-balance basis using the following annual rates:

Asset	Rate (percent)
Buildings	2–17
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.

Notes to Financial Statements

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1991 and 1990

1. Significant accounting policies – *continued*

e) Income Taxes

Deferred income taxes are provided on timing differences which result primarily from claiming capital cost allowances 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 translation

The United States operations of Lantic Sugar are considered self-sustaining. Assets and liabilities are translated at the year end rate of exchange. Income statement 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 and Lantic Sugar and its integrated foreign operations that are denominated in foreign currencies. Exchange adjustments on long-term debt are deferred and amortized to income over its remaining life. All other 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. Any experience gains and losses are amortized on a straight-line basis over the expected average remaining service life of the plan participants.

2. Investments

(In Thousands of Dollars)	1991	1990
Investment in Lantic Sugar Limited (Note 3)	$112,813	$ 363
Investment in Anderson Exploration Ltd. (Note 4)	34,197	31,847
Investment in Specialty Chemicals (Note 5)	–	65,739
Other investments		
Real estate development properties	2,267	2,636
Oil and gas properties	2,806	2,802
Other	454	527
	$152,537	$103,914

3. Lantic Sugar Limited ("Lantic Sugar")

a) 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. The purchase price in excess of identifiable assets and liabilities, in the amount of $73,925,000, has been attributed to goodwill.

A shareholders' agreement between Jannock and the Company contains the right of Jannock to sell all its remaining shares in Lantic Sugar to the Company after December 31, 1991 and the right of the Company to purchase all of Jannock's remaining shares in Lantic Sugar after December 31, 1993. The price paid by the Company for Jannock's remaining 50 percent interest will be determined pursuant to a formula based on earnings on exercise of the right.

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

b) Condensed financial information of Lantic Sugar:

Statement of Earnings

(In Thousands of Dollars)	Nine months ended September 30, 1991
Sales	$376,349
Costs and expenses	361,384
	14,965
Income taxes	4,981
Net earnings for the period reported by Lantic Sugar	$ 9,984
BC Sugar's share of Lantic Sugar's income	$ 4,992
Amortization of goodwill	962
Income from Lantic Sugar reported by BC Sugar	$ 4,030

Balance Sheet

(In Thousands of Dollars)	September 30, 1991
Assets	
Current assets	$127,912
Capital assets	147,320
Other assets	7,134
	$282,366
Liabilities	
Current liabilities	$ 46,818
Long-term debt	100,293
Deferred income taxes	12,414
	159,525
Shareholders' equity	122,841
	$282,366

4. Anderson Exploration Ltd. ("Anderson")

a) BC Sugar's share of income reported by Anderson has been determined as follows:

(In Thousands of Dollars)	1991	1990
Net income reported by Anderson	$ 5,971	$ 13,209
BC Sugar's share of Anderson's income	$ 1,109	$ 2,646
Eliminations:		
Anderson's gain on sale of BC Sugar shares net of income taxes	–	(856)
Intercompany dividends	–	(26)
	1,109	1,764
Gain on issue of treasury shares by Anderson (Note 4(b))	1,241	–
Income from Anderson reported by BC Sugar	$ 2,350	$ 1,764

Notes to Financial Statements

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1991 and 1990

4. Anderson Exploration Ltd. ("Anderson") – *continued*

b) During 1991, Anderson issued 2,000,000 common shares from treasury on the exercise of 2,000,000 Special Warrants. BC Sugar's interest in Anderson was reduced from 20.1 percent to 17.9 percent primarily as a result of this issuance. A gain of $1,241,000 was realized by BC Sugar because of the excess of purchase price paid over net book value on the exercise of the Special Warrants.

c) During 1990, Anderson disposed of its remaining holding of 607,000 shares of BC Sugar. As a result, BC Sugar's portion of Anderson's gain on the sale of its BC Sugar shareholding, net of income taxes, amounting to $543,000, was included in the value of the Company's share capital.

5. Discontinued operations

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 in the divestiture and expects to dispose of this investment within the next fiscal year. Consequently, this investment has been classified as a current asset in the current year.

Selected financial information of Specialty Chemicals:	Year ended September 30	
(In Thousands of Dollars)	1991	1990
Loss from discontinued operations	$ 26,942	$ 3,418
Income tax recovery	6,363	1,524
Loss from discontinued operations reported by BC Sugar	$ 20,579	$ 1,894

	As at September 30	
(In Thousands of Dollars)	1991	1990
Current assets	$ 35,282	$ 35,667
Investments	2,358	2,506
Property, plant and equipment	52,413	52,887
	$ 90,053	$ 91,060
Current liabilities	$ 36,443	$ 27,654
Long-term debt and liabilities	8,432	2,122
Deferred income taxes	2,531	4,189
Shareholders' equity	42,647	57,095
	$ 90,053	$ 91,060

Net revenues of Specialty Chemicals for the year ended September 30, 1991 were $93,558,000 (1990 – $105,923,000).

Loss from Specialty Chemicals for the six months ended March 31, 1991, net of income tax, amounted to $4,158,000.

6. Long-term debt

(In Thousands of Dollars)	1991	1990
The British Columbia Sugar Refining Company, Limited		
Revolving bank loan bearing interest at bank prime, convertible into a term loan at the Company's option with interest at prime plus ¼%	$ 70,000	$ 30,000
Term loan bearing interest at bank prime plus ¼%, maturing December 31, 2002	70,000	–
	$140,000	$ 30,000

6. Long term debt—*continued*

The Company has entered into an interest swap arrangement which matures March 31, 1998. Under the arrangement, interest is fixed at 10.13 percent per annum on an amount of $70,000,000.

The long-term debt is secured by a share pledge of 1,190,000 common shares of Lantic Sugar Limited and a general security agreement and a floating charge over the Company's assets.

Repayment of the term loan commences March 31, 1993, in quarterly repayments of $1,750,000. The repayment schedule matches the terms of the swap arrangement.

Required principal payments on long-term debt in each of the next five years are as follows:

(In Thousands of Dollars)	
1992	$ –
1993	5,250
1994	7,000
1995	7,000
1996	7,000

7. Share capital	1991	1990
Common shares outstanding at September 30:		
Class A	12,975,356	12,871,763
Class B	1,295,758	1,304,250
	14,271,114	14,176,013
Preferred shares, carrying a cumulative dividend entitlement 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.

During 1991, 95,101 shares (1990–143,142 shares) were issued as stock dividends to shareholders who elected to reinvest their dividends. The value attributed to these shares was $1,358,000 (1990–$2,178,000). The Dividend Reinvestment Plan was terminated following payment of the February, 1991 dividend.

In January, 1990, the Company issued 60,000 common shares with a value of $1,015,000 as part of the arrangement to acquire the remaining 25.3 percent interest in Kalama Chemical, Inc.

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.

Notes to Financial Statements

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1991 and 1990

7. Share capital – *continued*

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 common 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 common 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 80,000 (1990–30,000) Class A common shares at prices from \$15.00 to \$17.25 per common share.

The Company has reserved 250,000 Class A common shares for possible future issuance under this plan.

8. Income taxes

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

	1991	1990
Combined basic Canadian federal and provincial income tax rate	43.8%	42.1%
Manufacturing and processing profits deduction	(4.3)	(3.1)
Non-taxable adjustments and other	1.5	(2.9)
Effective income tax rate	41.0%	36.1%
Actual provision for income taxes	\$3,932,000	\$6,643,000

9. Pension plans

The Company maintains defined benefit pension plans for its employees. Actuarial valuations of these pension plans are carried out periodically and provide estimates of 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.

As at September 30, 1991, the present value of accrued benefits amounts to \$24,577,000 (1990–\$23,582,000). Pension fund assets as at September 30, 1991 were \$22,174,000 (1990–\$22,316,000).

The Company will fully amortize the unfunded accrued benefits over the expected average remaining service life of the plan participants. The amortization period is currently fourteen years.

10. Contingent liabilities

a) The Company, through Kalama, is involved in certain personal injury litigation and cleanup efforts in the United States which are considered routine to the nature of the Specialty Chemicals business. In the opinion of management, it is unlikely that the outcome of such litigation and environmental matters will have a material effect on the Company's financial position.

b) Kalama has posted a U.S. $3,000,000 letter of credit as security for the cleanup of its Garfield facility to a level deemed satisfactory to the State of New Jersey. Although it is not possible at this time to estimate the total cost of the cleanup, it is not expected to be less than the U.S. $3,000,000. This amount has been provided for in Kalama's accounts. Kalama intends to mitigate these costs and has brought action against its insurers and the previous owners of the facility.

c) Kalama is named as one of many potentially responsible parties at sites in the United States where cleanup efforts are required. It is not possible at this time to estimate precisely the costs of investigation and cleanup. Kalama has brought action for damages against its insurers for recovery and indemnity of related cleanup and defence costs. It is not possible at this time to estimate Kalama's eventual recovery, if any.

d) 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.

11. Net earnings (loss) per common share

The possible issuance of common shares by the Company under the key employee share option plan and the shareholders' rights plan will have an anti-dilutive effect on the Company's net earnings (loss) per share.

12. Segmented information

The Company, through its subsidiary The British Columbia Sugar Refining Company, Limited, operates primarily in the sugar industry which includes the refining, packaging and marketing of cane and beet sugar in Western Canada.

Specialty Chemicals, which operates in Canada and in the United States, was accounted for as a discontinued operation effective March 31, 1991.

Industry and geographic information for Specialty Chemicals is summarized as follows:

(In Thousands of Dollars)	Canada		United States		Total	
	1991	1990	1991	1990	1991	1990
Revenues	$23,555	$32,409	$70,003	$73,514	$93,558	$105,923
Operating loss	$ 9,862	$ 2,501	$ 8,080	$ 641	$17,942	$ 3,142
Identifiable assets	$44,635	$48,428	$51,389	$45,188	$96,024	$ 93,616
Depreciation	$ 2,401	$ 2,151	$ 2,825	$ 2,567	$ 5,226	$ 4,718
Purchase of fixed assets	$ 1,605	$ 4,464	$ 2,759	$ 6,392	$ 4,364	$ 10,856

Export sales attributable to the sugar industry aggregate less than 10 percent of consolidated revenues.

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, 1991 and 1990 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, 1991 and 1990 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, B.C.
November 15, 1991

PEAT MARWICK THORNE
Chartered Accountants

Directors

J. C. Anderson
Chairman, President 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

Officers

Peter A. Cherniavsky
Chairman

William C. Brown
President and Chief Executive Officer

David M. S. Elliott
Vice-President

James W. Hudson
Vice-President, Finance and Secretary

Herbert M. Hayward
Vice-President, Technical Operations

Brian A. Rogers
General Sales Manager

G. M. Guccione
General Manager, Alberta Sugar

J. G. Zednai
Manager, Manitoba Sugar

Ian D. Maitland
Controller

Roy E. Spires
Treasurer

Head Office

Location:
Rogers Street, Vancouver, B.C.

Postal address:
Box 2150, Vancouver, B.C. V6B 3V2

Stock Listing

Toronto Stock Exchange

Transfer Agents

National Trust Company

Annual Meeting

The Annual Meeting of Shareholders will be held on Wednesday, February 19, 1992 at 3:00 p.m. in the British Room of **The Hotel Vancouver,** Vancouver, British Columbia.

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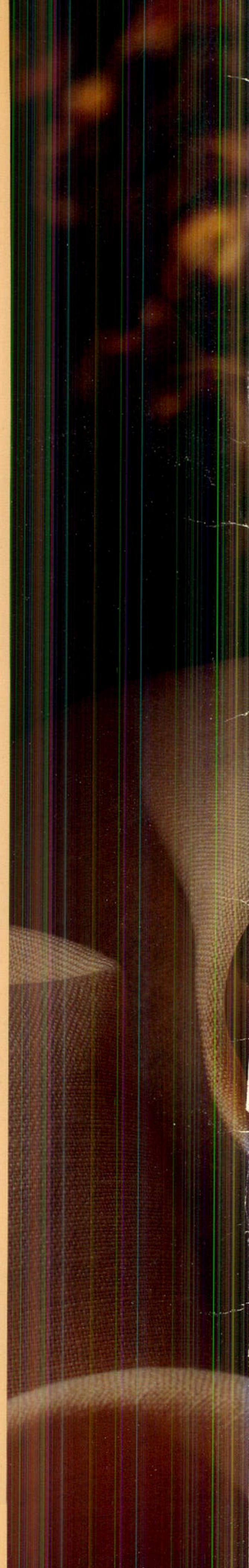

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