

C

*One Hundred  
Years*

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**BC Sugar**  
*Refinery Ltd.*

A N N U A L R E P O R T 1 9 8 9





# Financial Highlights

(000's omitted, except per share amounts)

Years Ended September 30	1989	1988	1987
Revenues	\$289,040	\$262,086	\$211,215
Earnings before extraordinary items	\$ 23,417	\$ 23,563	\$ 17,969
Extraordinary items	—	\$ 13,295	—
Net earnings	\$ 23,417	\$ 36,858	\$ 17,969
Dividends	\$ 10,698	\$ 8,786	\$ 7,740
Special dividend	—	\$ 36,612	—

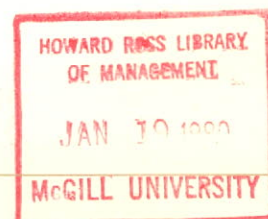
Average net shares outstanding	13,773	12,664	12,278
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## Per Common Share

(after giving retroactive effect to the 2-for-1 stock split in March, 1989)

Earnings before extraordinary items	\$ 1.70	\$ 1.86	\$ 1.47
Extraordinary items	—	1.05	—
Net earnings	\$ 1.70	\$ 2.91	\$ 1.47
Dividends	\$ .80	\$ .70	\$ .63

*One Hundred  
Years*





## To BC Sugar Shareholders



*Bill Brown, President, and Peter Cherniavsky, Chairman of BC Sugar.*

In 1989, net earnings amounted to \$23.4 million, or \$1.70 per share, compared to \$23.6 million and \$1.86 per share before extraordinary items in 1988. Cash flow from operations totalled \$29 million compared to \$30.1 million a year ago.

Earnings per share reflect the May, 1988 issuance of 500,000 common shares on the exercise

of common share purchase warrants and the March, 1989 two-for-one split of outstanding common shares approved at the 1989 Annual Meeting.

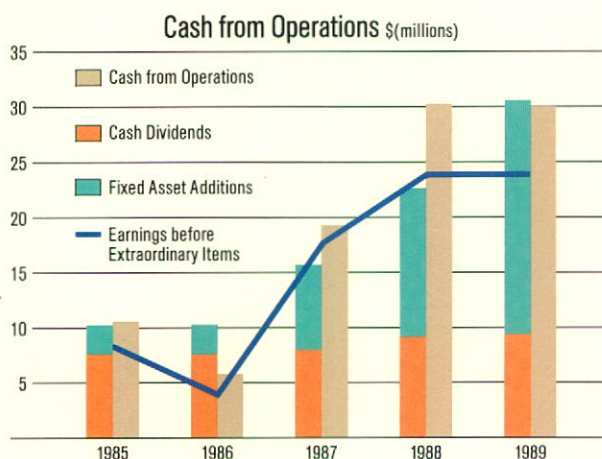
BC Sugar has paid dividends for ninety-six consecutive years. In February, 1989, the quarterly dividend was increased from 17½ cents to



20 cents per share on a post-split basis. The annual rate is now 80 cents per share.

The 1988 special dividend of one common share of Anderson Exploration Ltd. for every two shares of BC Sugar then held has proved a marked success. Not only did BC Sugar shareholders acquire a direct, marketable interest in Anderson, but also the value attributed to Anderson by the stock market has substantially increased.

Earnings from sugar remained relatively constant during 1989 despite continued pressure from competitive sweeteners. However, higher world prices for raw sugar have encouraged penetration of historical sucrose markets by high fructose corn syrup, while dumped sugar imports from the U.S., Korea and the E.E.C. continue to enjoy unrestricted access to the Canadian marketplace.



Financial results continue to reflect the emergence of the chemicals business as an important contributor to consolidated earnings. Chemical operations now generate a significant cash flow, much of which is retained for new investment.

Chatterton Petrochemical Corporation, 100%-owned by BC Sugar, and Kalama Chemical, Inc., now 75%-owned, operate on an integrated basis with a common marketing strategy and a coordinated research and development program, under the direction of a single board of management.

Capital projects totalling \$21.1 million were undertaken during 1989. Of this amount, \$4.2 million was spent on sugar operations and \$16.9 million within the chemicals group. The more significant of these expenditures are discussed in

the subsequent sections of this Report.

BC Sugar's employee share purchase plan has been in place since 1979, with participation averaging about 75% of eligible employees in each year since the plan was introduced. In 1988, the employee share purchase plan was extended to employees of Chatterton, and, in 1989, Kalama employees were included in the plan.

At the Annual Meeting of the Company on February 15, 1989, Hon. Pat Carney was elected to the Board of Directors. The former Conservative Member of Parliament for the riding of Vancouver Centre, Miss Carney most recently held the position of President of the Treasury Board and, prior to that appointment, served as Minister of International Trade and as Minister of Energy, Mines and Resources.

In September, John G. Cochrane, Vice-President of BC Sugar, was appointed Chairman of Kalama Chemical, Inc. Mr. Cochrane is now Chairman of both Chatterton and Kalama. Also in September, James W. Hudson, formerly Treasurer of the Company, was appointed Vice-President, Finance and Secretary.

1990 marks the 100th anniversary of BC Sugar. In recognition of this important event, BC Sugar has donated to the current expansion of the facilities of the Vancouver Public Aquarium. The BC Sugar Seal Pool is scheduled for opening in May of 1990.

A history of the Company entitled "The Refiners" has recently been published. It tells the story of BC Sugar's first hundred years and is available through Canadian bookstores.

On the eve of our centenary, the Board of Directors again extends its thanks to all employees for a job well done.

On behalf of the Board

*Peter A. Cherniavsky*  
Chairman

*John W. Hudson*  
President

December 20, 1989  
Vancouver, B.C.

*One Hundred Years*



# Sugar



*Joe Guccione, General Manager of Alberta Sugar, Jerry Zednai, Manager of Manitoba Sugar, and David Elliott, Vice-President, BC Sugar.*

**T**he improvement in world market raw sugar prices reported a year ago was maintained through 1989 with world prices averaging 12 cents U.S. per pound compared with less than 10 cents in 1988. The trend toward rising prices is expected to continue in 1990. World sugar production has lagged consumption for the last

five years, and stocks have fallen to a level which has historically presaged a bull market.

International trade in sugar, however, is much different today than was the case prior to the price peaks experienced in 1974 and in 1980. A greater proportion of major importers are now developing countries, so demand for sugar





*The Taber laboratory will measure the quality of sugar beets delivered by each grower.*

has become more elastic and responds more quickly to price increases than was the case a decade ago. Further, developing countries are becoming more self-sufficient in sugar and are now better able to respond domestically to increased demand. Nevertheless, world sugar inventory levels are abnormally low, and it is not unlikely that the early nineties could see world raw sugar prices in excess of 20 cents per pound.

Dumped refined sugar from the U.S., Korea and the E.E.C. continues to erode profit margins which would otherwise be available to Canadian producers. Although sales volumes for BC Sugar have been maintained at near historical levels, margins have been reduced. In order to address these competitive threats, production facilities must be continuously modernized and made more efficient. To this end, the Company undertook capital improvements of \$4.2 million to sugar operations in 1989, and further improvements of \$5 million are scheduled for 1990.

During the past year, a new laboratory was constructed in Taber for the purpose of measuring the quality characteristics of sugar beets delivered by each grower. Consequently, commencing with the 1989 crop, returns to sugar beet growers will be apportioned on the basis of sugar content in beets delivered, as well as the weight of beets received. The new system of payment will reward appropriate agronomic practices on an individual grower basis and, as sugar beet quality

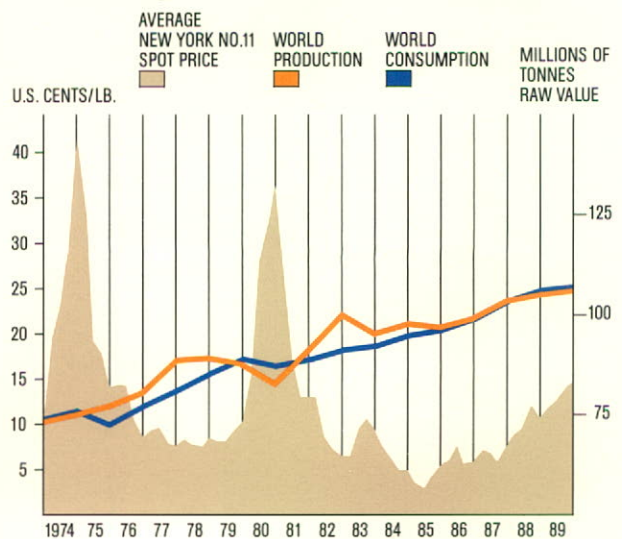
improves, will result in factory processing efficiencies and reductions in overall industry production costs.

Canada's access to sugar and sweetened goods markets in the United States has been affected by two separate rulings by U.S. Customs. In late 1988, an earlier decision which ruled that imported raw cane sugar refined in Canada is not a Canadian product for U.S. quota purposes was confirmed. As a result, Canadian holders of U.S. sugar quota permits can ship only beet sugar into the U.S. Alberta Sugar and Manitoba Sugar are the only beet sugar processors in Canada.

On January 1, 1989, the first day of free trade, the U.S. government declared that sucrose-dextrose blends previously subject to separate quota restrictions, would henceforth be deemed as entered under the much smaller sugar quota. Canada's subsequent protest of this action has yet to be resolved.

Consumer attitudes toward the role of sugar as a normal part of a healthy diet are still improving. Knowledgeable consumers understand

#### World Sugar Prices, Production and Consumption



that fears of sugar consumption being related to the development of obesity, cancer, hyperactivity, etc. are unfounded. Misunderstandings about the alleged health advantages of high intensity artificial sweeteners persist, and the sugar industry must continue to disseminate factual scientific evidence, such as will be seen on page 20 of this Report.



# Specialty Chemicals



*Bob Kirchner, President of Kalama Chemical, Inc., Fred Shelton, President of Chatterton Petrochemical Corporation, and John Cochrane, Vice-President of BC Sugar.*

**F**ive years ago, BC Sugar entered the specialty chemicals industry through the purchase of an interest in a phenol plant located in Delta, British Columbia. From this base of a single plant producing one product, the Company's specialty chemical operations are now comprised of three plants producing over 20 products sold

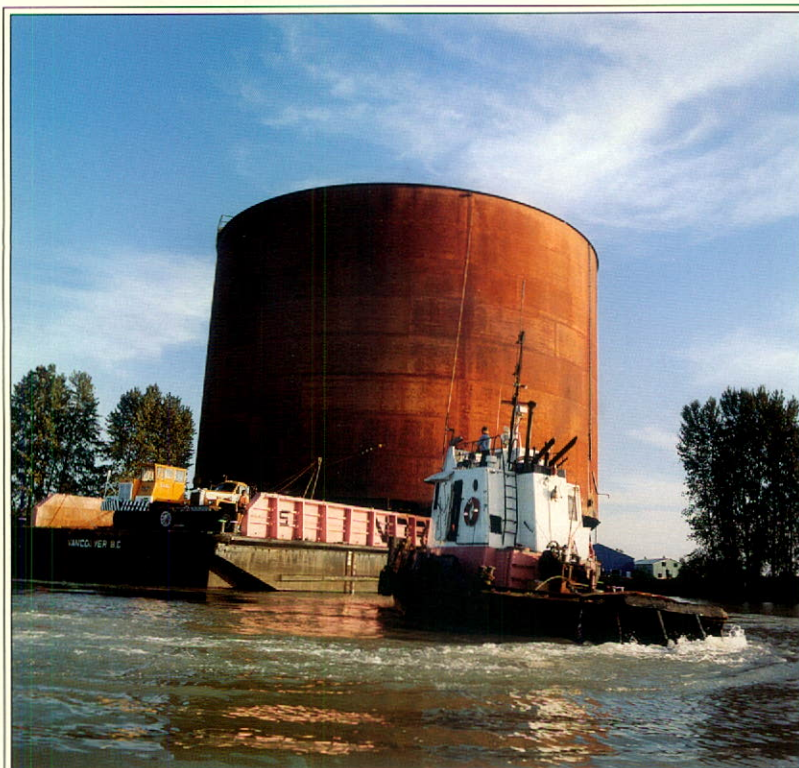
in many countries of the world.

Revenues have increased each year since 1985 and are expected to increase further in 1990 and subsequent years as new products are introduced.

The strategy of the chemicals group continues to be to diversify into new products,



	1985	1986	1987	1988	1989
Specialty Chemicals Revenues (000's)	\$ 4,542	\$ 9,865	\$72,528	\$109,299	\$126,118
Operating Earnings (Loss) (000's)	\$ (472)	\$(4,854)	\$ 6,611	\$ 21,444	\$ 18,456



*One of two 3,500,000 gallon storage tanks arriving at Chatterton's plant on the Fraser River.*

especially those with higher market returns.

The third process line at the Delta plant was completed in mid-1989. This line will be used to produce meta toluic acid, a constituent of insect repellent, ortho toluic acid, a chemical intermediate used in agricultural applications, and para tertiary butyl phenol, a specialty chemical used in the plastics industry and as a disinfectant. During the past year, two 3,500,000 gallon tanks were added for the storage of toluene, thereby tripling the Delta plant's raw material storage capacity. Also in 1989, new charcoal bed resorbers were installed for the purpose of further reducing hydrocarbon emissions.

Sodium benzoate capacity at the Kalama plant was substantially increased during the year. Included in the expansion was the addition of equipment to produce an extruded, dust-free product. Construction of additional facilities to

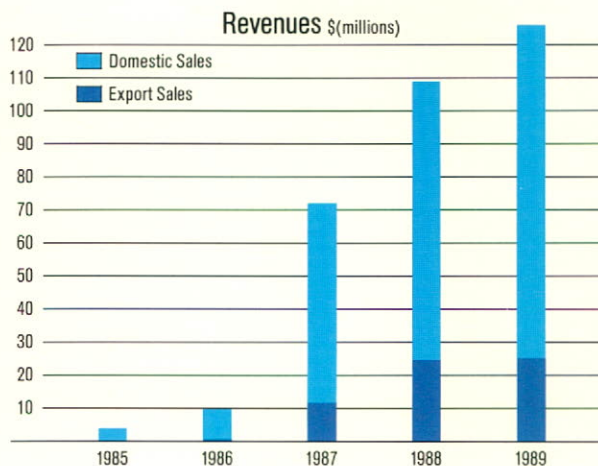
produce benzaldehyde derivatives for the fragrance industry are scheduled for completion in the spring of 1990.

Significant measures were taken during 1989 to increase the efficiency of salicylic acid production facilities at the Garfield, New Jersey plant. Salicylic acid is a basic constituent of aspirin and pain relievers.

Worldwide marketing of all products is now directed from the Seattle, Washington office. Good progress was made during the past year in further developing a large and diverse international customer base. Approximately 25% of specialty chemicals revenues are now derived from export sales. Shipments were made to 34 countries last year, some of which were new destinations in 1989.

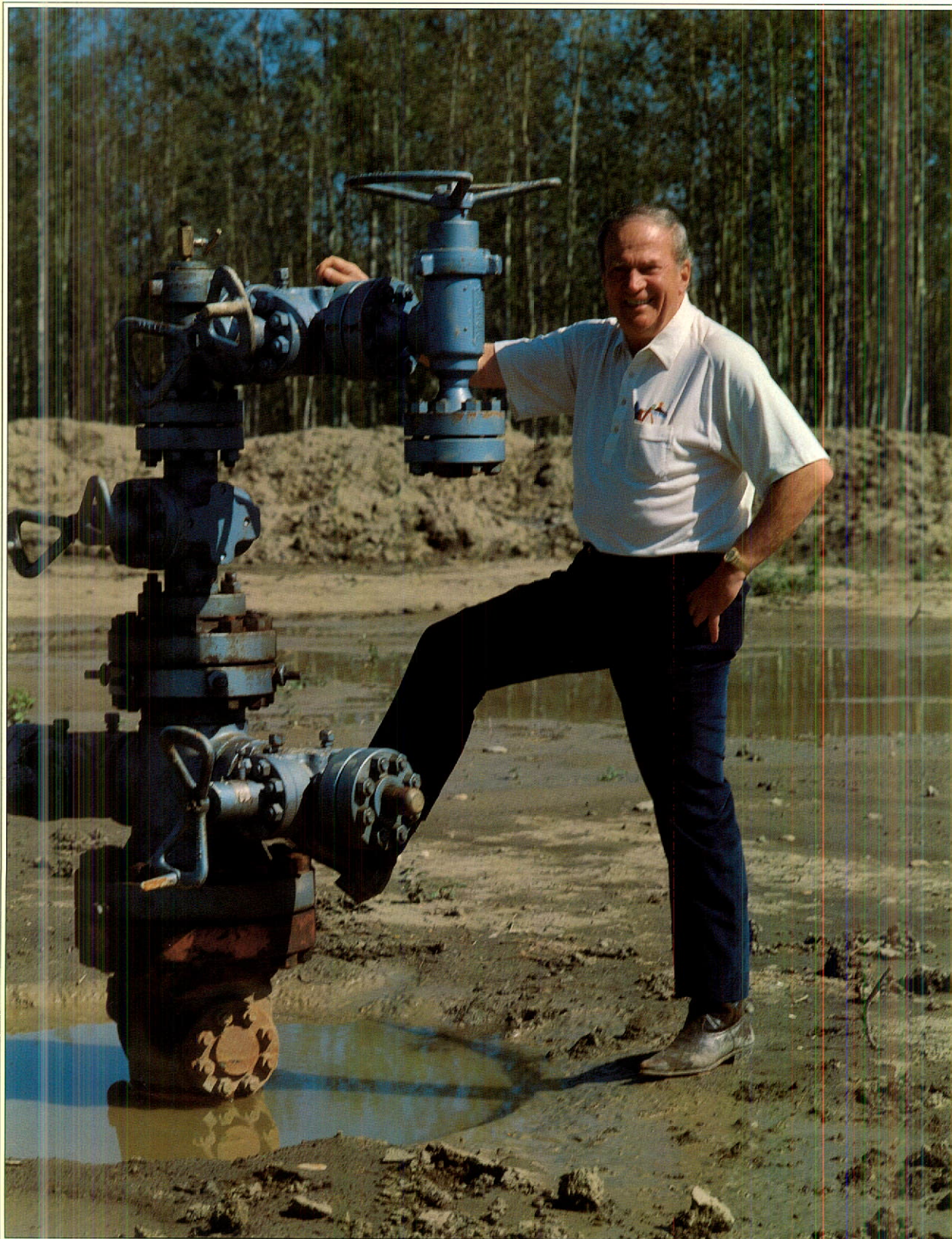
The international marketplace holds potential for future sales

growth, either through the penetration of new markets or an increased share of existing markets. To realize this potential, emphasis will continue to be placed on developing business opportunities in southeast Asia and Japan.





# *Oil and Gas*



*J.C. Anderson, President of Anderson Exploration Ltd.*



**T**he 1989 fiscal year was the first full year of operation as a public company for Anderson Exploration Ltd. In 1988, BC Sugar shareholders became direct shareholders in Anderson when approximately one-half BC Sugar's interest in Anderson was distributed as a special dividend. BC Sugar's interest in Anderson is now 20.3%.

In 1989, production volumes, cash flow and earnings exceeded the levels achieved last year and were the highest recorded since the formation of Anderson in 1982.

Gas production increased to a record 71 million cubic feet per day at an average price of \$1.96 per thousand cubic feet. While natural gas liquids production declined 7%, oil production increased 12% to 1,636 barrels per day. In September 1989, oil production averaged 2,250 barrels per day—55% higher than a year ago. Fiscal 1990 oil production will be substantially higher than in 1989 as a result of a successful exploration program.

During the past year, Anderson replaced its production through its exploration, development and acquisition program. On a proven reserve basis, Anderson replaced 151% of its 1989 production of oil and natural gas liquids and 154% of 1989 gas production. The gas reserve life index remained unchanged at 21.4 years on a proven basis and now stands at 15 years for oil and natural gas liquids.

Anderson Exploration remains confident in the prospects for the petroleum industry in Canada and in its own ability to pursue new and successful exploration and development opportunities. To this end, the Company has established a record capital expenditure budget for 1990.

HIGHLIGHTS	1989	1988
<b>Financial</b> (in Thousands of Dollars)		
Revenues (net of royalties)	\$ 51,000	\$ 48,800
Net earnings	\$ 11,000	\$ 7,300
Cash flow	\$ 34,000	\$ 28,000
Net capital expenditures	\$ 32,300	\$ 24,800
Long-term debt	\$ 80,000	\$ 85,000
Shareholders' equity	\$131,000	\$119,700

<b>Reserves</b>		
Natural gas		
(billions of cubic feet)		
—proven	556	543
—proven plus probable	810	765
Oil and natural gas liquids		
(millions of barrels)		
—proven	15.3	14.8
—proven plus probable	23.8	21.0

<b>Production</b>		
Natural gas		
(millions of cubic feet per day)	71	69
Oil and natural gas liquids		
(barrels per day)	2,791	2,706



*The Dunvegan gas plant in Alberta's Peace River area.*



# Five-Year Review

(000's omitted, except per share amounts)

<b>FINANCIAL</b>	<b>1989</b>	<b>1988</b>	<b>1987</b>	<b>1986</b>	<b>1985</b>
Revenues	\$289,040	\$262,086	\$211,215	\$137,769	\$132,910
Earnings before extraordinary items	\$ 23,417	\$ 23,563	\$ 17,969	\$ 4,290	\$ 8,143
Extraordinary items	—	13,295	—	(40,934)	(930)
Net earnings (loss)	\$ 23,417	\$ 36,858	\$ 17,969	\$ (36,644)	\$ 7,213
Cash from operations	\$ 29,000	\$ 30,114	\$ 18,130	\$ 5,880	\$ 10,291
Dividends	\$ 10,698	\$ 8,786	\$ 7,740	\$ 7,422	\$ 7,411
Special dividend	—	\$ 36,612	—	—	—
Working capital	\$ 33,975	\$ 39,091	\$ 19,791	\$ 5,155	\$ 9,491
Long-term debt	\$ 32,142	\$ 32,411	\$ 35,097	\$ 21,919	\$ 20,939
Shareholders' equity	\$ 88,745	\$ 73,543	\$ 64,692	\$ 54,336	\$ 98,209

## Per common share

(after giving retroactive effect to the 2-for-1 stock split in March, 1989)

Earnings before extraordinary items	\$ 1.70	\$ 1.86	\$ 1.47	\$ .35	\$ .66
Extraordinary items	—	1.05	—	(3.34)	(.07)
Net earnings (loss)	\$ 1.70	\$ 2.91	\$ 1.47	\$ (2.99)	\$ .59

## OTHER INFORMATION

Average net shares outstanding (000's omitted)	13,773	12,664	12,278	12,258	12,240
Degree of Canadian registration of common shares	96%	97%	96%	96%	96%



# Statement of Earnings

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

(in Thousands of Dollars)

	1989	1988
<b>Revenues</b>	<b>\$289,040</b>	<b>\$262,086</b>
<b>Costs and expenses</b>		
Cost of sales	207,071	178,740
Selling, general and administrative	27,800	26,135
Depreciation	7,340	6,233
Long-term debt interest	3,666	3,107
Other interest	1,676	2,318
<b>Total costs and expenses</b>	<b>247,553</b>	<b>216,533</b>
	41,487	45,553
<b>Income taxes (Note 6)</b>	<b>16,695</b>	<b>19,560</b>
<b>Earnings before undernoted items</b>	<b>24,792</b>	<b>25,993</b>
<b>Income from oil and gas (Note 2(a))</b>	<b>1,294</b>	<b>2,256</b>
<b>Minority interest in earnings of subsidiary company (Note 9)</b>	<b>(2,669)</b>	<b>(4,686)</b>
<b>Earnings before extraordinary items</b>	<b>23,417</b>	<b>23,563</b>
<b>Extraordinary items (Note 7)</b>	<b>—</b>	<b>13,295</b>
<b>Net earnings</b>	<b>\$ 23,417</b>	<b>\$ 36,858</b>
<b>Per Common Share</b>		
Earnings before extraordinary items	\$ 1.70	\$ 1.86
Extraordinary items	—	1.05
<b>Net earnings</b>	<b>\$ 1.70</b>	<b>\$ 2.91</b>

# Statement of Retained Earnings

	1989	1988
<b>Balance, beginning of year</b>	<b>\$ 20,452</b>	<b>\$ 28,992</b>
<b>Net earnings</b>	<b>23,417</b>	<b>36,858</b>
	43,869	65,850
<b>Dividends (including special dividend in 1988)</b>	<b>10,698</b>	<b>45,398</b>
<b>Balance, end of year</b>	<b>\$ 33,171</b>	<b>\$ 20,452</b>

*One Hundred Years*



# Balance Sheet

BC Sugar Refinery, Limited and Subsidiary Companies, September 30

(in Thousands of Dollars)

	1989	1988
<b>ASSETS</b>		
<b>Current Assets</b>		
Accounts receivable	\$ 37,257	\$ 37,127
Inventories	40,791	32,417
<b>Total current assets</b>	<b>78,048</b>	<b>69,544</b>
<b>Investment in Anderson Exploration Ltd. (Note 2)</b>	<b>28,169</b>	<b>25,309</b>
<b>Other Investments (Note 3)</b>	<b>8,805</b>	<b>7,804</b>
<b>Fixed Assets</b>		
Property, plant and equipment	151,992	131,033
Less accumulated depreciation	82,581	76,329
<b>Total fixed assets</b>	<b>69,411</b>	<b>54,704</b>
	<b>\$184,433</b>	<b>\$157,361</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Bank loans, secured	\$ 10,251	\$ 739
Accounts payable and accrued liabilities	33,822	29,714
<b>Total current liabilities</b>	<b>44,073</b>	<b>30,453</b>
<b>Long-Term Debt (Note 4)</b>	<b>32,142</b>	<b>32,411</b>
<b>Deferred Income Taxes</b>	<b>11,774</b>	<b>8,579</b>
<b>Minority Interests</b>	<b>7,699</b>	<b>12,375</b>
<b>Total</b>	<b>95,688</b>	<b>83,818</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital (Note 5)</b>		
Common shares	56,268	54,025
Preferred shares	1,570	1,570
	<b>57,838</b>	<b>55,595</b>
<b>Retained Earnings</b>	<b>33,171</b>	<b>20,452</b>
	<b>91,009</b>	<b>76,047</b>
<b>Common shares held by Anderson Exploration Ltd. (Note 2(b))</b>	<b>(1,346)</b>	<b>(2,151)</b>
<b>Foreign exchange adjustment</b>	<b>(918)</b>	<b>(353)</b>
<b>Total shareholders' equity</b>	<b>88,745</b>	<b>73,543</b>
	<b>\$184,433</b>	<b>\$157,361</b>

Approved by the Board  
Peter A. Cherniavsky, 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)	1989	1988
<b>Cash provided by (used for)</b>		
<b>Operations</b>		
Funds provided from operations (below)	\$ 34,070	\$ 35,120
Changes in non-cash working capital	(5,070)	(5,006)
Cash from operations	29,000	30,114
<b>Cash dividends paid</b>	(9,217)	(8,805)
	19,783	21,309
<b>Financing</b>		
Dividends reinvested in common shares	(1,638)	(222)
Issue of common shares	1,638	15,652
Increase (decrease) in long-term debt	39	(1,995)
Realization of investment in Anderson Exploration Ltd.	—	36,612
Special dividend	—	(36,612)
	39	13,435
<b>Investments</b>		
Additions to fixed assets	(21,157)	(14,140)
Investment in Kalama Chemical, Inc.	(7,507)	—
Other investments	(670)	(868)
Investment in Chatterton Petrochemical Corporation	—	(3,052)
Investment in Anderson Exploration Ltd.	—	(2,100)
	(29,334)	(20,160)
<b>(Increase) decrease in current bank loans</b>	(9,512)	14,584
<b>Current bank loans at beginning of year</b>	739	15,323
<b>Current bank loans at end of year</b>	\$ 10,251	\$ 739

## FUNDS PROVIDED FROM OPERATIONS

	1989	1988
Earnings before extraordinary items	\$ 23,417	\$ 23,563
Items not involving cash		
Depreciation	7,340	6,233
Minority interest in earnings, net of dividends paid	1,835	3,527
Deferred income taxes	3,295	2,853
Income from oil and gas	(1,294)	(2,256)
Loss (income) from investments	(579)	1,356
Depletion of oil and gas property	195	177
Other	(139)	(333)
	10,653	11,557
<b>Funds provided from operations</b>	\$ 34,070	\$ 35,120

*One Hundred  
Years*



# Notes to Financial Statements

*BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1989*

## **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 and Chatterton Petrochemical Corporation and the 74.7 percent-owned company, Kalama Chemical, Inc. (Note 9).

The Company's 20.3 percent interest in Anderson Exploration Ltd. ("Anderson") has been accounted for on the equity basis (Note 2(a)).

### *b) Inventories*

A normal quantity of 35,000 tonnes of cane sugar is valued at \$85 per tonne, which is less than replacement value. Any quantities of cane sugar in excess of this amount and all beet sugar inventories are valued at the lower of average and replacement cost. All other inventories are valued at the lower of average cost and net realizable value.

### *c) Depletion*

The Company and Anderson follow the full cost method of accounting whereby all costs relative 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*

Fixed assets are stated at cost. Depreciation is provided over the estimated useful lives of the assets. Assets of the Canadian operations are depreciated on the diminishing-balance basis at rates varying from four percent to thirty percent per annum. Assets of the specialty chemical operations in the United States are depreciated on the straight-line basis at rates varying from five percent to ten percent.

### *e) Income taxes*

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

### *f) Earnings per common share*

Earnings per common share are calculated after adjusting for the shares of the Company held by Anderson.

### *g) Foreign currency translation*

Monetary assets and liabilities of the Company in foreign currencies without a fixed or ascertainable life, as well as financial statements of foreign operations, which are self-sustaining, are translated at the year-end rate of exchange. Income statement items are translated at average exchange rates.

Gains and losses from exchange translations are included in the Statement of Earnings, with the exception of gains and losses from translation of self-sustaining foreign operations which are included in the foreign exchange adjustment component of shareholders' equity.

### *h) Pension expense and obligation*

Assets of the Canadian defined benefits pension plan are recorded at values which are adjusted to market over a period of five years. Assets of the United States defined benefits pension plan are recorded at market values. Any experience gains and losses are amortized on a straight-line basis over the expected average remaining service life of the plan participants.



## 2. Anderson Exploration Ltd. ("Anderson")

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

(In Thousands of Dollars)	1989	1988
Net income reported by Anderson	\$ 10,988	\$ 7,309
BC Sugar's share of Anderson's income	\$ 2,267	\$ 2,497
Eliminations:		
Anderson's gain on sale of BC Sugar shares	(816)	—
Intercompany dividends	(157)	(241)
Income from oil and gas reported by BC Sugar	\$ 1,294	\$ 2,256

b) To reflect Anderson's ownership of 607,000 shares (1988–984,000 shares) of BC Sugar, shareholders' equity has been reduced by the Company's share of the cost of the BC Sugar shares held by Anderson.

Through open market sales during the year, Anderson reduced its holding of shares of BC Sugar from 984,000 shares to 607,000 shares. As a result, the Company's share of the cost of the BC Sugar shares held by Anderson has been reduced by \$805,000 and BC Sugar's portion of Anderson's gain on sale, amounting to \$605,000, has been included in the Company's share capital.

## 3. Other investments

(In Thousands of Dollars)	1989	1988
Real estate development properties	\$ 2,832	\$ 3,173
Oil and gas properties	2,838	2,901
Other	3,135	1,730
	\$ 8,805	\$ 7,804

## 4. Long-term debt

(In Thousands of Dollars)	1989	1988
<b>The British Columbia Sugar Refining Company, Limited</b>		
Secured bank loan bearing interest at bank prime, convertible into a term loan at the Company's option with interest at prime plus ¼%	\$ 30,000	\$ 30,000
<b>Chatterton Petrochemical Corporation</b>		
Secured loan repayable by 1992	2,378	2,378
Other	82	43
	32,460	32,421
Less current portion included in accounts payable	318	10
	\$ 32,142	\$ 32,411



# Notes to Financial Statements

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1989

## 4. Long-term debt—continued

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

1990	\$ 318
1991	318
1992	1,803
1993	21
1994	—

5. Share capital	1989	1988
Common shares outstanding at September 30:		
Class A	12,565,026	12,392,310
Class B	1,407,845	1,477,066
	13,972,871	13,869,376
Preferred shares, carrying a cumulative dividend entitlement of \$1.00 per share and redeemable at \$20.00 per share	78,500	78,500

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 the year, 103,495 shares (1988—17,120 shares) were issued as stock dividends to shareholders who elected to reinvest their dividends. The value attributed to these shares was \$1,638,000 (1988—\$222,000).

In March, 1989, the Company subdivided its common shares on a two-for-one basis and all figures for common shares reflect this subdivision.

## 6. Income taxes

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

	1989	1988
Combined basic Canadian federal and provincial income tax rate	42.2%	47.5%
Manufacturing and processing profits deduction	(2.3)	(6.0)
Other	0.3	1.4
Effective income tax rate	40.2%	42.9%
Actual provision for income taxes	\$ 16,695,000	\$ 19,560,000

## 7. Extraordinary items

(in Thousands of Dollars)	1989	1988
Gain on realization of investment in Anderson including recovery of deferred income taxes of \$3,400		\$16,155
Write-off of investment in Methane Technologies		(2,860)
Extraordinary items	NIL	\$13,295



## 8. 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, 1989, the present value of accrued benefits amounts to \$25,488,000. Pension fund assets as at September 30, 1989 were \$24,105,000.

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

## 9. Kalama Chemical, Inc. ("Kalama")

In December of 1986, the Company acquired all of the convertible debt and a 49.98 percent interest in the common shares of Kalama.

In December 1988, the Company converted the debt into a 4.07 percent interest in the common shares of Kalama and, in February 1989, pursuant to a share purchase agreement, acquired an additional 20.69 percent interest for cash consideration of \$7,507,000. The excess purchase price of \$1,355,000 arising on these two transactions has been attributed to fixed assets. As at September 30, 1989, the Company has a 74.7 percent interest in Kalama.

The Company has agreed that the remaining minority shareholder may require the Company to purchase his shares of Kalama during the period to December 31, 1996, subject to certain annual restrictions, at a price determined by reference to the net book value of Kalama. In 1996, the Company may purchase Kalama shares not then owned by the Company at a price determined by the same purchase price formula.

## 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 its 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) During the year, Kalama 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. It is anticipated that a portion of the cleanup costs will be borne by the previous owner of the site. It is not possible at this time to estimate the costs associated with the cleanup, nor determine the degree of cost participation by Kalama, if any, in such cleanup.



# Notes to Financial Statements

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1989

## 11. Segmented information

The Company and its subsidiaries operate in Canada and the United States in two industry segments, sugar and specialty chemicals. The sugar segment includes the refining, packaging and marketing of cane and beet sugar in western Canada. The specialty chemicals segment consists of the development and production of products in Canada and the United States.

### a) Industry segments

(In Thousands of Dollars)	Sugar		Specialty Chemicals		Consolidated	
	1989	1988	1989	1988	1989	1988
Revenues	\$162,922	\$152,787	\$126,118	\$109,299	\$289,040	\$262,086
Operating earnings	\$ 28,373	\$ 29,534	\$ 18,456	\$ 21,444	\$ 46,829	\$ 50,978
Interest expense					5,342	5,425
Income taxes					16,695	19,560
Income from oil and gas					(1,294)	(2,256)
Minority interest in earnings of subsidiary					2,669	4,686
Extraordinary items					—	(13,295)
					23,412	14,120
Net earnings					\$ 23,417	\$ 36,858
Identifiable assets	\$ 56,265	\$ 58,100	\$ 91,194	\$ 66,148	\$147,459	\$124,248
Investments					36,974	33,113
					\$184,433	\$157,361
Depreciation	\$ 3,442	\$ 3,153	\$ 3,898	\$ 3,080	\$ 7,340	\$ 6,233
Purchase of fixed assets	\$ 4,202	\$ 5,555	\$ 16,955	\$ 8,585	\$ 21,157	\$ 14,140



## 11. Segmented information – continued

### b) Geographic segments

(in Thousands of Dollars)	Canada		United States		Consolidated	
	1989	1988	1989	1988	1989	1988
Revenues	\$208,271	\$187,659	\$ 80,769	\$ 74,427	\$289,040	\$262,086
Operating earnings	\$ 34,798	\$ 37,047	\$ 12,031	\$ 13,931	\$ 46,829	\$ 50,978
Interest expense					5,342	5,425
Income taxes					16,695	19,560
Income from oil and gas					(1,294)	(2,256)
Minority interest in earnings of subsidiary					2,669	4,686
Extraordinary items					—	(13,295)
					23,412	14,120
Net earnings					\$ 23,417	\$ 36,858
Identifiable assets	\$105,849	\$ 91,242	\$ 41,610	\$ 33,006	\$147,459	\$124,248
Investments					36,974	33,113
					\$184,433	\$157,361
Depreciation	\$ 5,336	\$ 4,365	\$ 2,004	\$ 1,868	\$ 7,340	\$ 6,233
Purchase of fixed assets	\$ 15,437	\$ 11,560	\$ 5,720	\$ 2,580	\$ 21,157	\$ 14,140

Export sales attributed to Canadian operations aggregate less than 10 percent of consolidated revenues.

## Auditors' Report

To the Shareholders of BC Sugar Refinery, Limited

We have examined the consolidated balance sheet of BC Sugar Refinery, Limited as at September 30, 1989 and the related consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at September 30, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada  
November 14, 1989

PEAT MARWICK THORNE  
Chartered Accountants





## SAFETY TESTED.

These days, almost everything your children touch has been tested for safety. And no food has been more thoroughly tested (and approved!) than sugar.

Hundreds of studies have consistently reaffirmed the safety of sugar. It will not make your children hyperactive. It doesn't make them fat. It won't cause diabetes or heart disease...or any other disease, for that matter. Even dental cavities have been greatly reduced, with the help of fluoride.

On the other hand, sugar gives your children the natural energy their active, growing bodies require. And it makes a wide variety of nutritious foods more appealing to young taste buds.

Children have always loved the taste of sugar. Chances are, they always will. Isn't it nice to know that something they enjoy so much can be so safe?



**NOTHING EQUALS SUGAR.**

The Canadian Sugar Institute



## Directors

J.C. Anderson  
*President of Anderson Exploration Ltd.*

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

William C. Brown  
*President of the Company*

Patricia Carney  
*Economic Consultant*

Peter A. Cherniavsky  
*Chairman of the Company*

John G. Cochrane  
*Vice-President of the Company*

John W. Pitts  
*President of MacDonald Dettwiler  
and Associates*

H. Richard Whittall  
*President of Minoils Limited*

F. Cameron Wilkinson  
*Business Consultant*

## Officers

Peter A. Cherniavsky  
*Chairman and Chief Executive Officer*

William C. Brown  
*President and Chief Operating Officer*

John G. Cochrane  
*Vice-President*

David M.S. Elliott  
*Vice-President*

James W. Hudson  
*Vice-President, Finance and Secretary*

Brian A. Rogers  
*General Sales Manager*

G.M. Guccione  
*General Manager, Alberta Sugar*

J.G. Zednai  
*Manager, Manitoba Sugar*

### 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 Friday, February 9, 1990 at 3:00p.m. in the Park Ballroom of The Four Seasons Hotel, Vancouver, British Columbia.

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*One Hundred  
Years*





NOTHING EQUALS SUGAR.