

ANNUAL REPORT 1988

BC Sugar

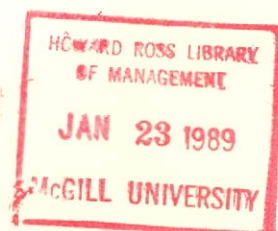
FINANCIAL HIGHLIGHTS

(000's omitted, except per share amounts)

Years Ended September 30	1988	1987	1986
Revenues	\$262,086	\$211,215	\$137,769
Earnings before extraordinary items	\$ 23,563	\$ 17,969	\$ 4,290
Extraordinary items	\$ 13,295	—	\$ (40,934)
Net earnings (loss)	\$ 36,858	\$ 17,969	\$ (36,644)
Dividends	\$ 8,786	\$ 7,740	\$ 7,422
Special dividend	\$ 36,612	—	—
Average net shares outstanding	6,332	6,139	6,129

Per Common Share

Earnings before extraordinary items	\$ 3.72	\$ 2.93	\$.69
Extraordinary items	2.10	—	(6.68)
Net earnings (loss)	\$ 5.82	\$ 2.93	\$ (5.99)
Dividends	\$ 1.40	\$ 1.25	\$ 1.20



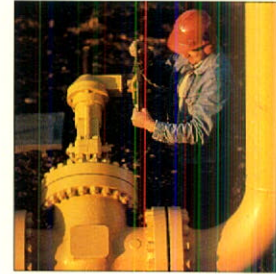
TO BC SUGAR SHAREHOLDERS

In 1988, BC Sugar reported record cash flow and the highest earnings in the Company's history.

Earnings before extraordinary items amounted to \$23.6 million, or \$3.72 per share, compared to \$18 million and \$2.93 per share in 1987. Cash flow from operations totalled \$30.1 million compared to \$18.1 million last year.

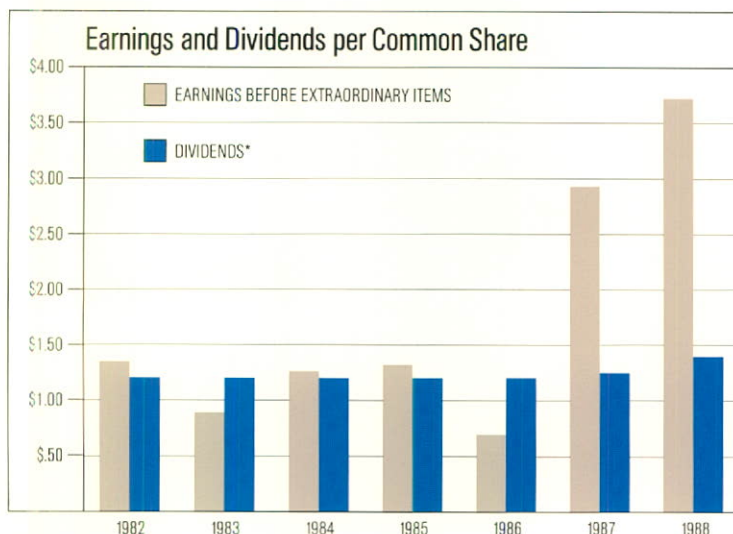
At a meeting of the Board of Directors held in December, 1988, the quarterly dividend was increased from 35 cents to 40 cents. The annual rate is now \$1.60 per common share. At the Annual Meeting to be held on February 15, 1989, shareholder approval will be sought for a two-for-one stock split of outstanding common shares.

During the year, approximately 500,000 common shares were issued on the exercise of warrants, resulting in \$12.5 million being added to working capital.



In May, 1988, BC Sugar distributed to its shareholders one-half of the Company's interest in Anderson Exploration Ltd. The special dividend consisted of one common share of Anderson for every two shares of BC Sugar. The total value of the dividend was \$36.6 million, or \$10.875 per Anderson share. In July, 1988, Anderson shares began trading on the Toronto Stock Exchange, giving BC Sugar shareholders a direct, marketable interest in Anderson. As at September 30, 1988, BC Sugar's interest in Anderson stood at 20.3%. BC Sugar has been associated with Anderson since 1976. This long and on-going relationship is expected to bring further benefits to our shareholders in the years ahead.

Anderson Exploration Ltd. remains well-positioned for the future with proven natural gas reserves of 543 billion cubic feet, representing a 22-year reserve life at current



*Excluding special dividend in 1988

levels of production. Anderson sells the majority of its gas in the northern California market which presently offers one of the highest netbacks for Alberta gas.



The specialty chemical operations of BC Sugar made a significant contribution to earnings in 1988. Approximately twenty products are now being sold in over fifteen countries.

These operations are experiencing improved margins and near-capacity production levels. Strong demand has brought about a significant increase in sales of phenol, a product used to make resins, the binder for waferboard and plywood.

At September 30, 1988, Chatterton Petrochemical Corporation became 100%-

owned by BC Sugar. Management of Chatterton, who previously owned 20% of the company, exchanged their Chatterton shares for BC Sugar shares.

Subsequent to the year-end, BC Sugar exercised its right to acquire a further 5% of Kalama Chemical, Inc. through conversion of notes. BC Sugar now owns 54% of Kalama.



Sugar operations continued to generate reasonable earnings. In 1988, capital improvements of \$5.6 million were made to improve the efficiency of the Company's three sugar plants. The two beet sugar factories remain important contributors to the economies of southern Alberta and Manitoba.

In the past few years, BC Sugar has become a stronger company, with sugar, chemicals and oil and gas now providing a diversified base. Each of these operations has established products and markets. The Company has also strengthened its financial position and is able to take advantage of new opportunities which may arise.

At the Annual Meeting of February, 1988, Mr. R. Stuart Angus was elected a director of the Company.

In May, Mr. William C. Brown, formerly Vice-President of the Company, was appointed President and Chief Operating Officer. At the same time, Mr. David M. S. Elliott, formerly General Manager of Manitoba Sugar, was appointed a Vice-President of the Company.

The success of any enterprise is largely dependent upon the abilities and dedication of its employees. In this regard, the Board recognizes and appreciates the efforts of all employees during the past year.

On behalf of the Board

Peter A. Cherniavsky
Chairman
BC Sugar

December 28, 1988
Vancouver, B.C.

During the year, raw sugar prices strengthened considerably from a low of 6 cents U.S. per pound to a high of 15 cents, before retreating to the 10-cent per pound range. World sugar stocks are currently at a level which should result in a period of relatively stable prices. Any material shortfall in major sugar producing areas could, however, easily move the market up to the 15-cent range again.

In recent years, the U.S. government's sugar program has had a very negative effect on its cane refining industry. Seven years ago there were 22 operating plants; now there are only 12. In an effort to increase sales volumes, some of these refiners have used Canada as a dumping ground for refined sugar, offering sugar at less than half of their own domestic price. As a result, the market for all Canadian cane sugar and beet sugar has been eroded, with Manitoba being affected most seriously in western Canada. Such price impairment impinges directly on returns to both the Company and growers, with consequent increased demands on the government's Tripartite Stabilization Plan for sugar beets.

One of the major advantages to Canada of the Free Trade Agreement will be enhanced accessibility to the U.S. marketplace for Canadian goods and services. While this will be helpful to Canadian industry in general, it will have little direct impact on the sugar industry. Under the Agreement, access to the U.S. sugar market remains virtually closed to Canada, while the Canadian border continues to be completely open to imports from the U.S.

The 1987 sugar beet crops in Manitoba and Alberta were among the best on record. Excellent quality of sugar beets, coupled with favourable weather during the harvest and processing periods, contributed in large measure to very satisfactory results.

As a result of the drought experienced in the summer of 1988, output for Manitoba in 1989 will be markedly reduced. Alberta, with irrigation, has produced a satisfactory crop.

Plant improvements com-

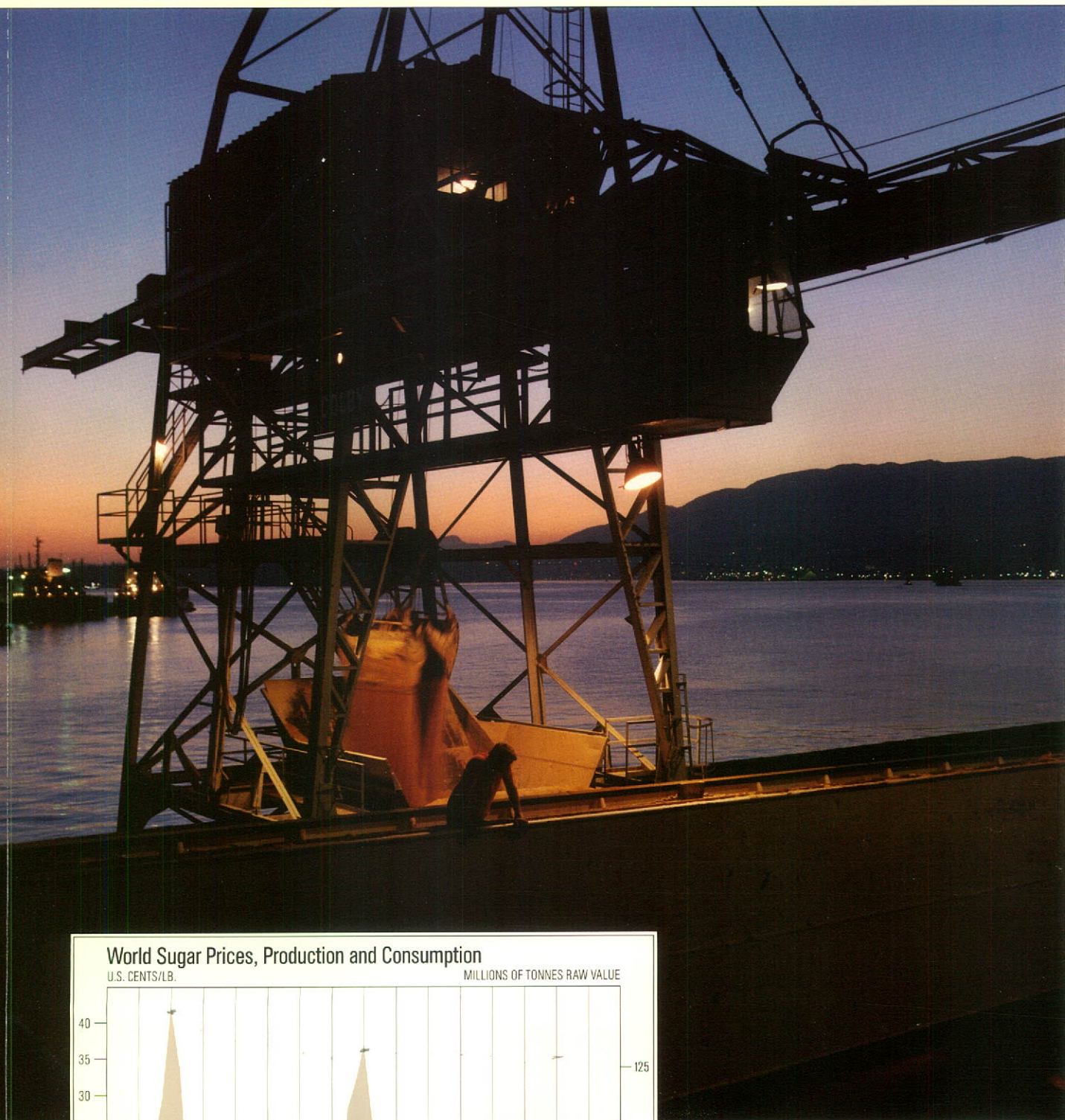
pleted in Alberta during the past year have greatly assisted in achieving operating economies. Although there will be no major capital investments required in the sugar division in 1989, the Company will continue to reinvest sufficient funds to contain costs and maintain competitiveness.

Per capita consumption of nutritive sweeteners in Canada has remained constant for a number of years. Despite aggressive advertising campaigns adopted by the artificial sweetener industry, the growth in Canadian consumption of these products now appears to be moderating. While non-nutritive sweeteners have not measurably displaced sugar in the diet of the average Canadian household, inaccurate claims attributed to health benefits associated with their use continue to be made. The most recent advertisement of the Canadian Sugar Institute addresses the role of sugar in a properly directed weight-control regime and is reproduced on the final page of this Report.

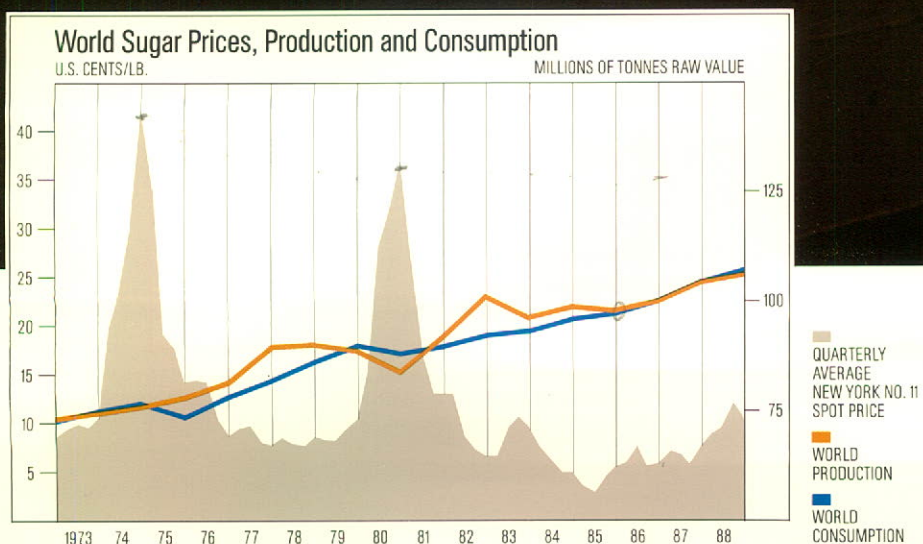
In 1988, a new maple flavoured syrup was introduced by the Company to the western Canadian market. Further new products are planned for 1989.



Maple flavoured pancake syrup joins the family of BC Sugar products.



Unloading bulk raw sugar at the Vancouver refinery.



SPECIALTY CHEMICALS



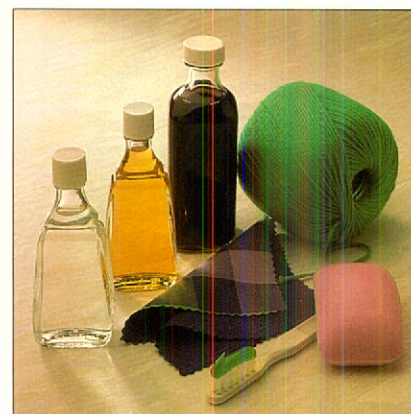
Production facilities at Kalama, Washington.

BC Sugar's specialty chemical operations achieved continued growth in 1988. Revenues increased from \$73 million in 1987 to \$109 million in 1988. Earnings were up sharply in 1988, and further improvement is expected in 1989.

To achieve long-term growth and stability in earnings, the strategic objective continues to be to diversify into new specialty chemical products while maintaining strength in phenol, the basic commodity chemical.

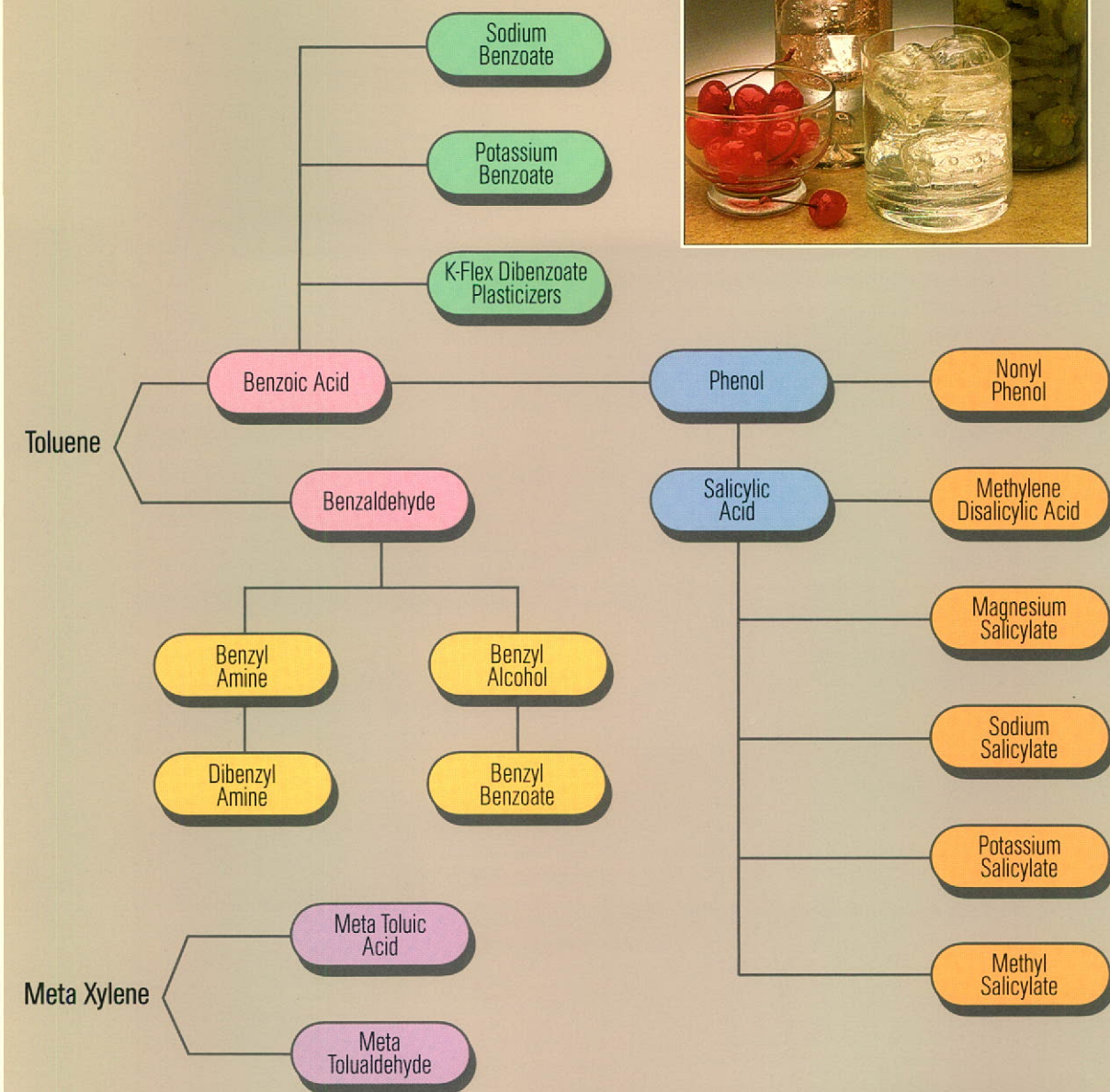
The improved financial performance in 1988 was brought about by both external and internal factors.

Increased demand generated by worldwide economic growth and a limited supply led to improved prices for phenol during 1988. Cheaper oil-based feedstock and favourable exchange rates also contributed to the overall improvement in results.



Benzaldehyde is used in the manufacture of flavourings, dyes and perfumes for soaps and cosmetics. It is the main ingredient found in natural almond oil.

Benzoic acid and sodium and potassium benzoates are widely used as preservatives throughout the food industry in products such as soft drinks, pickles and ethnic foods.



Phenol is used in the manufacture of waferboard, plywood and some major plastics. It is also the starting chemical in the making of headache remedies, throat sprays and skin creams.



SPECIALTY CHEMICALS

Chatterton's plant at Delta, British Columbia and Kalama's plant at Kalama, Washington operated near capacity in 1988. The volume of all products sold in 1988 was 15% higher than in 1987. Phenol production is now at a level of 100 million pounds per year, or approximately 3% of North American production.

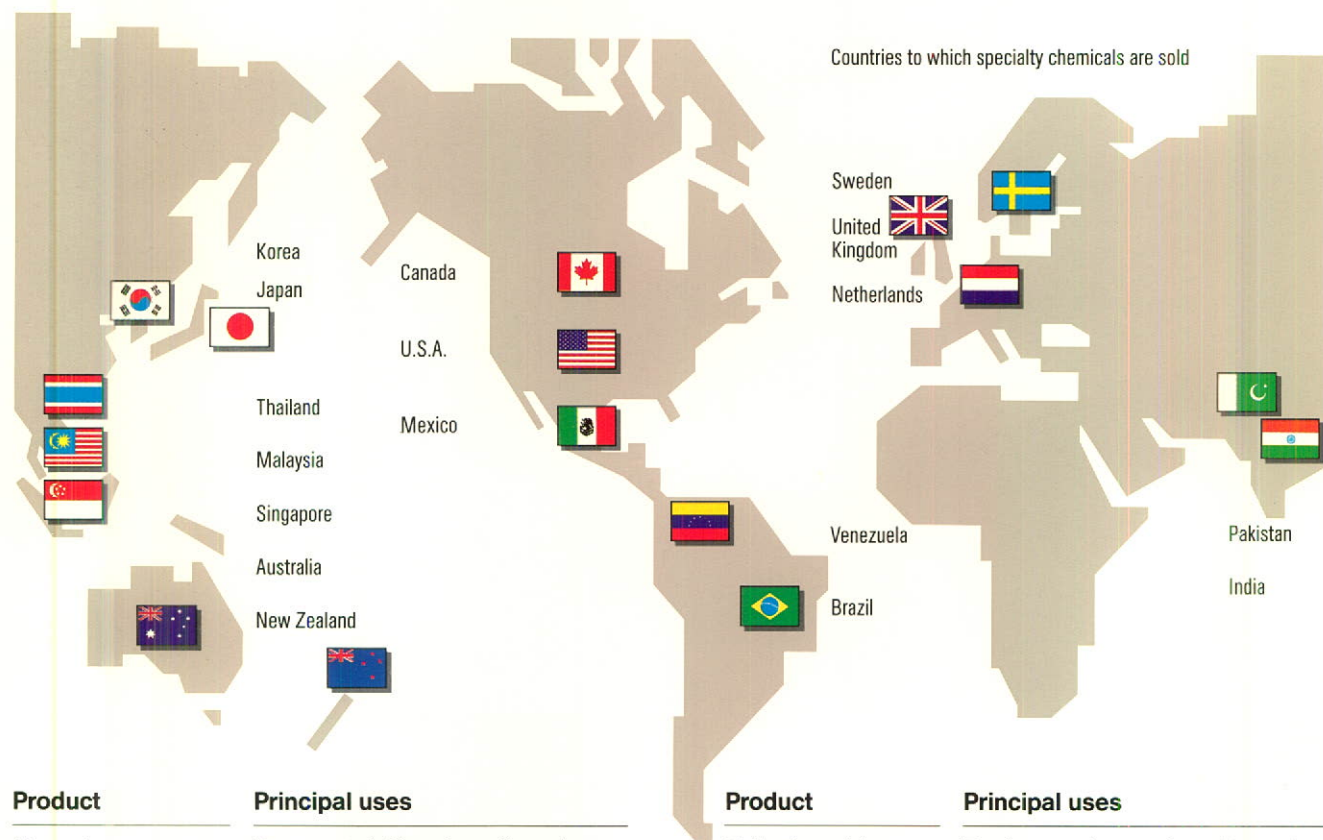
In 1989, phenol production should increase by 10% and benzoate production by 25%.

Technical staff are actively engaged in programs to improve yields, reduce costs and develop new products.

Efforts are being made to develop long-term export markets. Exports accounted for 25% of sales in 1988. Products were shipped to the Orient, Australia, South America and Europe. While the Pacific Rim provides an obvious market for West Coast chemical

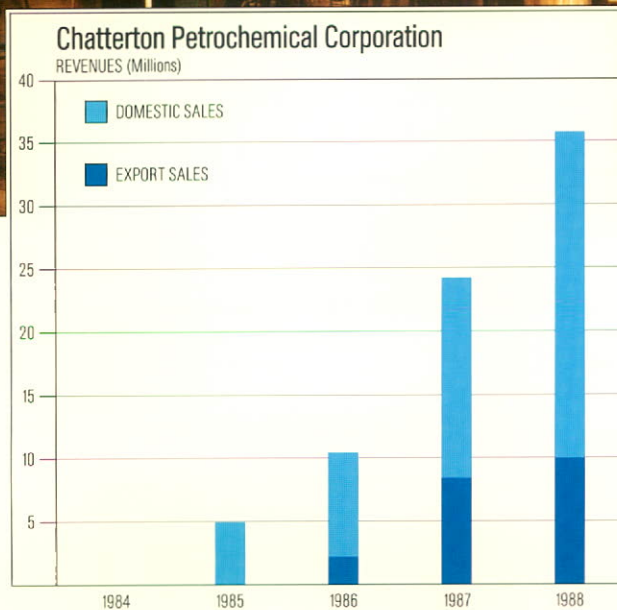
manufacturers, entry and retention of this market depends upon product quality and superior service.

The third process line at Chatterton will be completed in the spring of 1989. It is designed to produce meta toluic acid and ortho toluic acid as well as other specialty items. The new line will permit markedly greater flexibility in total plant operations.



Product	Principal uses
Phenol	Raw material for phenolic resins used for waferboard and plywood; also used as a disinfectant.
Benzoic acid	A preservative for foods and pharmaceuticals; also used in the manufacture of coating resins.
Sodium and potassium benzoate	The standard preservatives in many foods, particularly carbonated beverages.
Benzaldehyde	Base for flavours such as almond and cherry and in various soap fragrances.

Product	Principal uses
Salicylic acid	Basic constituent of aspirin and pain relievers.
Nonyl phenol	Raw material for detergents and surfactants.
Benzyl alcohol	Important chemical used in colour film processing.
K-Flex compounds	Plasticizers and modifiers for various plastics.
Meta toluic acid	Constituent of insect repellent.
Ortho toluic acid	Chemical intermediate for agricultural use.



The Chatterton plant located on the Fraser River in Delta, B.C.

OIL AND GAS

The year 1988 was one of achievement for Anderson Exploration Ltd.

1. In July, 1988, Anderson became a public company with its shares listed for trading on the Toronto Stock Exchange. BC Sugar shareholders became direct shareholders in Anderson when approximately one-half of BC Sugar's interest in Anderson was distributed as a special dividend.

2. Financial performance was the best since the formation of Anderson in 1982. Earnings

were the highest experienced to date.

3. Reserves continued to increase. Through a balanced program of exploration and development drilling, acquisitions and other well work, 56 billion cubic feet of proven gas reserves and 330,000 barrels of proven reserves of oil and natural gas liquids were added in 1988. On a proven barrel equivalent basis, the Company replaced 169% of its 1988 production of 25 billion cubic feet of gas and one million

barrels of oil and natural gas liquids.

4. Production was at a higher level. Gas production increased 11% to 69 million cubic feet per day, as demand under the Company's system contracts grew. Record levels of production for oil and natural gas liquids were achieved. Total oil and liquids production was 2,706 barrels per day, a 71% increase from 1,579 barrels per day in 1987. Oil production was up 42% from 1,034 barrels per day in 1987 to 1,464 barrels per day in 1988.



Natural gas liquids production more than doubled in 1988 with the expansion of the Dunvegan gas plant.

HIGHLIGHTS	1988	1987
Financial (In Thousands of Dollars)		
Revenues (net of royalties)	\$ 48,800	\$ 45,400
Net earnings	\$ 7,300	\$ 6,300
Cash flow	\$ 28,000	\$ 23,800
Net capital expenditures	\$ 24,800	\$ 14,100
Long-term debt	\$ 85,000	\$ 86,400
Shareholders' equity	\$119,700	\$110,900
Reserves		
Natural gas		
(billions of cubic feet)		
—proven	543	512
—proven plus probable	765	721
Oil and natural gas liquids		
(thousands of barrels)		
—proven	14,778	15,430
—proven plus probable	20,997	21,465
Production		
Natural gas		
(millions of cubic feet per day)	69.0	62.2
Oil and natural gas liquids		
(barrels per day)	2,706	1,579
Drilling activity		
Wells drilled		
Gross	74	39
Net	42	18

FIVE - YEAR REVIEW

(Dollar amounts in thousands except per share amounts)

FINANCIAL	1988	1987	1986	1985	1984
Revenues	\$262,086	\$211,215	\$137,769	\$132,910	\$145,407
Earnings before extraordinary items	\$ 23,563	\$ 17,969	\$ 4,290	\$ 8,143	\$ 6,896
Extraordinary items	13,295	—	(40,934)	(930)	1,435
Net earnings (loss)	\$ 36,858	\$ 17,969	\$ (36,644)	\$ 7,213	\$ 8,331
Cash from operations	\$ 30,114	\$ 18,130	\$ 5,880	\$ 10,291	\$ 12,279
Dividends	\$ 8,786	\$ 7,740	\$ 7,422	\$ 7,411	\$ 6,499
Special dividend	\$ 36,612	—	—	—	—
Working capital	\$ 39,091	\$ 19,791	\$ 5,155	\$ 9,491	\$ 11,368
Long-term debt	\$ 32,411	\$ 35,097	\$ 21,919	\$ 20,939	\$ 16,839
Shareholders' equity	\$ 73,543	\$ 64,692	\$ 54,336	\$ 98,209	\$ 98,178
Per common share					
Earnings before extraordinary items	\$ 3.72	\$ 2.93	\$.69	\$ 1.32	\$ 1.26
Extraordinary items	2.10	—	(6.68)	(.15)	.26
Net earnings (loss)	\$ 5.82	\$ 2.93	\$ (5.99)	\$ 1.17	\$ 1.52
OTHER INFORMATION					
Average net shares outstanding (000's omitted)	6,332	6,139	6,129	6,120	5,441
Degree of Canadian registration of common shares	97%	96%	96%	96%	95%

STATEMENT OF EARNINGS

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

(In Thousands of Dollars)	1988	1987
Revenues	\$262,086	\$211,215
Costs and expenses		
Cost of sales	178,740	146,392
Selling, general and administrative	26,135	23,980
Depreciation	6,233	4,729
Long-term debt interest	3,107	2,858
Other interest	2,318	2,018
Total costs and expenses	216,533	179,977
	45,553	31,238
Income taxes (Note 6)	19,560	13,512
Earnings before undernoted items	25,993	17,726
Income from oil and gas (Note 2(b))	2,256	2,250
Minority interest in earnings of subsidiary companies	(4,686)	(2,007)
Earnings before extraordinary items	23,563	17,969
Extraordinary items (Note 7)	13,295	—
Net earnings	\$ 36,858	\$ 17,969
Per Common Share		
Earnings before extraordinary items	\$ 3.72	\$ 2.93
Extraordinary items	2.10	—
Net earnings	\$ 5.82	\$ 2.93

STATEMENT OF RETAINED EARNINGS

	1988	1987
Balance, beginning of year	\$ 28,992	\$ 18,763
Net earnings	36,858	17,969
	65,850	36,732
Dividends (including special dividend in 1988)	45,398	7,740
Balance, end of year	\$ 20,452	\$ 28,992

BALANCE SHEET

BC Sugar Refinery, Limited and Subsidiary Companies, September 30

(In Thousands of Dollars)	1988	1987
ASSETS		
Current Assets		
Accounts receivable	\$ 37,127	\$ 27,443
Inventories	32,417	31,853
Total current assets	69,544	59,296
Investment in Anderson Exploration Ltd. (Note 2)	25,309	42,502
Other Investments (Note 3)	7,804	11,949
Fixed Assets		
Property, plant and equipment	131,033	114,059
Less accumulated depreciation	76,329	69,467
Total fixed assets	54,704	44,592
	\$157,361	\$158,339
LIABILITIES		
Current Liabilities		
Bank loans, secured	\$ 739	\$ 15,323
Accounts payable and accrued liabilities	29,714	24,182
Total current liabilities	30,453	39,505
Long-Term Debt (Note 4)	32,411	35,097
Deferred Income Taxes	8,579	9,365
Minority Interests	12,375	9,680
Total	83,818	93,647
SHAREHOLDERS' EQUITY		
Share Capital (Note 5)		
6,934,688 Common shares (1987—6,328,825 shares)	54,025	38,373
78,500 Preferred shares (1987—78,500 shares)	1,570	1,570
	55,595	39,943
Retained Earnings	20,452	28,992
	76,047	68,935
Common shares held by Anderson Exploration Ltd. (Note 2(c))	(2,151)	(4,217)
Foreign exchange adjustment	(353)	(26)
Total shareholders' equity	73,543	64,692
	\$157,361	\$158,339

Approved by the Board
 Peter A. Cherniavsky, *Director*.
 John W. Pitts, *Director*.

Contingent liabilities—see Note 10

STATEMENT OF CHANGES IN FINANCIAL POSITION

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

(In Thousands of Dollars)	1988	1987
Cash provided by (used for)		
Operations		
Funds provided from operations (below)	\$ 35,120	\$ 22,476
Changes in non-cash working capital	(5,006)	(4,346)
Cash from operations	30,114	18,130
Cash dividends paid	(8,805)	(7,762)
	21,309	10,368
Financing		
Realization of Investment in Anderson Exploration Ltd. (Note 7)	36,612	—
Special dividend	(36,612)	—
Issue of common shares	15,430	—
(Decrease) increase in long-term debt	(1,995)	10,870
	13,435	10,870
Investment		
Additions to fixed assets	(14,140)	(7,976)
Investment in Chatterton Petrochemical Corporation	(3,052)	—
Purchase of shares in Anderson Exploration Ltd.	(2,100)	—
Purchase of Kalama Chemical, Inc.	—	(11,055)
Other investments	(868)	(1,240)
	(20,160)	(20,271)
Decrease in current bank loans	14,584	967
Current bank loans at beginning of year	15,323	16,290
Current bank loans at end of year	\$ 739	\$ 15,323

FUNDS PROVIDED FROM OPERATIONS

	1988	1987
Earnings before extraordinary items	\$ 23,563	\$ 17,969
Items not involving cash		
Depreciation	6,233	4,729
Minority interest in earnings, net of dividends paid	3,527	1,467
Deferred income taxes	2,853	509
Income from oil and gas	(2,256)	(2,250)
Share of loss (income) from investments	1,356	(142)
Depletion of oil and gas properties	177	194
Other	(333)	—
	11,557	4,507
Funds provided from operations	\$ 35,120	\$ 22,476

NOTES TO FINANCIAL STATEMENTS

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1988

1. Significant accounting policies

a) Basis of presentation

The consolidated financial statements include the accounts of the 100 percent-owned subsidiary companies, The British Columbia Sugar Refining Company, Limited and Chatterton Petrochemical Corporation and the 54.05 percent-owned company, Kalama Chemical, Inc. (see Note 9).

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

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.

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 eight 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 reciprocal ownership of shares of the Company held by Anderson.

g) Foreign currency translation

Monetary assets and liabilities of the Company in foreign currencies, 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.

NOTES TO FINANCIAL STATEMENTS

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1988

2. Anderson Exploration Ltd. ("Anderson")

a) On July 15, 1988, the Company distributed approximately one-half of its 38.7 percent investment in shares of Anderson to its common shareholders as a special dividend (see Note 7).

On September 30, 1988, the Company purchased 164,706 treasury shares of Anderson for cash of \$2,100,000, thereby increasing its ownership to 20.3%.

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

(In Thousands of Dollars)	1988	1987
Net income reported by Anderson	\$ 7,309	\$ 6,259
BC Sugar's share of Anderson's income	\$ 2,497	\$ 2,495
Elimination of intercompany dividends	(241)	(245)
Income from oil and gas reported by BC Sugar	\$ 2,256	\$ 2,250

c) To reflect Anderson's ownership of 492,000 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.

3. Other investments

(In Thousands of Dollars)	1988	1987
Real estate development properties	\$ 3,173	\$ 3,627
Oil and gas properties	2,901	2,906
Other	1,730	5,416
	\$ 7,804	\$ 11,949

4. Long-term debt

(In Thousands of Dollars)	1988	1987
The British Columbia Sugar Refining Company, Limited		
Secured bank loan at bank prime, convertible into a term loan with interest at prime plus 1/4%	\$ 30,000	\$ 30,000
Chatterton Petrochemical Corporation		
Secured loan repayable by 1992	2,378	1,820
Secured bank loan	—	2,467
Other	43	12
Kalama Chemical, Inc.		
Secured bank loan	—	2,127
Other	—	414
	32,421	36,840
Less current portion included in accounts payable	10	1,743
	\$ 32,411	\$ 35,097

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

1989	\$ 10
1990	307
1991	307
1992	1,797
1993	—

5. Share capital	1988	1987
Common shares		
Class A	6,196,155	5,576,393
Class B	738,533	752,432
	6,934,688	6,328,825
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, 8,560 shares (1987—9,949 shares) were issued to shareholders who elected to reinvest their dividends. The value attributed to these share was \$222,000 (1987—\$223,000).

During the year, 495,483 common shares were issued at \$25.00 per share on the exercise of common share purchase warrants which expired on May 31, 1988.

On September 30, 1988, 101,820 common shares were issued to the former minority shareholders of Chatterton Petrochemical Corporation ("Chatterton") in exchange for their 20 percent minority position. The value ascribed to each common share issued was \$29.875, for a total consideration of \$3,042,000 which has been attributed to fixed assets. BC Sugar now owns 100 percent of Chatterton.

6. Income taxes

The Company's effective income tax rate is comprised as follows:

	1988	1987
Combined basic Canadian federal and provincial income tax rate	47.5%	51.5%
Manufacturing and processing profits deduction	(6.0)	(6.0)
Other	1.4	(2.2)
Effective income tax rate	42.9%	43.3%
Actual provision for income taxes	\$19,560,000	\$13,512,000

7. Extraordinary items

(In Thousands of Dollars)	1988	1987
Anderson realization		
Realization of investment in Anderson, represented by 3,366,580 shares of Anderson at a value determined by BC Sugar of \$10.875 per Anderson share	\$ 36,612	
Carrying value of Anderson shares distributed	(23,857)	
	12,755	
Recovery of related deferred income taxes	3,400	
	16,155	
Write-off of investment in Methane Technologies	(2,860)	
Extraordinary items	\$ 13,295	Nil

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, 1988, the present value of accrued benefits amount to \$24,890,000. Pension fund assets as at September 30, 1988 were \$22,590,000.

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.

NOTES TO FINANCIAL STATEMENTS

BC Sugar Refinery, Limited and Subsidiary Companies, September 30, 1988

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

In December of 1986, the Company acquired a 49.98 percent interest in the common shares and all of the convertible debt of Kalama. In June, 1988, the Company gave notice of its intention to convert the debt into common shares. Subsequent to September 30, 1988, the debt was converted, giving the Company a 54.05 percent interest in Kalama.

The Company has entered into an agreement whereby the other shareholders may require the Company to purchase the remaining 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 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) Subsequent to September 30, 1988, Kalama posted a U.S. \$3,000,000 bond 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 reasonably estimate the costs associated with the cleanup.

11. Segmented information

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

a) Industry segments

(In Thousands of Dollars)	Sugar		Specialty Chemicals		Consolidated	
	1988	1987	1988	1987	1988	1987
Revenues	\$152,787	\$138,687	\$109,299	\$72,528	\$262,086	\$211,215
Operating earnings	\$ 29,534	\$ 29,503	\$ 21,444	\$ 6,611	\$ 50,978	\$ 36,114
Interest expense					5,425	4,876
Income taxes					19,560	13,512
Income from oil and gas					(2,256)	(2,250)
Minority interest in earnings of subsidiary companies					4,686	2,007
Extraordinary items					(13,295)	—
					14,120	18,145
Net earnings					\$ 36,858	\$ 17,969
Identifiable assets	\$ 58,100	\$ 46,555	\$ 66,148	\$57,333	\$124,248	\$103,888
Investments					33,113	54,451
					\$157,361	\$158,339
Depreciation	\$ 3,153	\$ 2,418	\$ 3,080	\$ 2,311	\$ 6,233	\$ 4,729
Purchase of fixed assets	\$ 5,555	\$ 2,731	\$ 8,585	\$ 5,245	\$ 14,140	\$ 7,976

11. Segmented information (continued)

b) Geographic segments

(In Thousands of Dollars)	Canada		United States		Consolidated	
	1988	1987	1988	1987	1988	1987
Revenues	\$187,659	\$160,975	\$ 74,427	\$50,240	\$262,086	\$211,215
Operating earnings	\$ 37,047	\$ 30,943	\$ 13,931	\$ 5,171	\$ 50,978	\$ 36,114
Interest expense					5,425	4,876
Income taxes					19,560	13,512
Income from oil and gas					(2,256)	(2,250)
Minority interest in earnings of subsidiary companies					4,686	2,007
Extraordinary items					(13,295)	—
					14,120	18,145
Net earnings					\$ 36,858	\$ 17,969
Identifiable assets	\$ 91,242	\$ 72,350	\$ 33,006	\$31,538	\$124,248	\$103,888
Investments					33,113	54,451
					\$157,361	\$158,339
Depreciation	\$ 4,365	\$ 3,258	\$ 1,868	\$ 1,471	\$ 6,233	\$ 4,729
Purchase of fixed assets	\$ 11,560	\$ 7,014	\$ 2,580	\$ 962	\$ 14,140	\$ 7,976

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

AUDITORS' REPORT

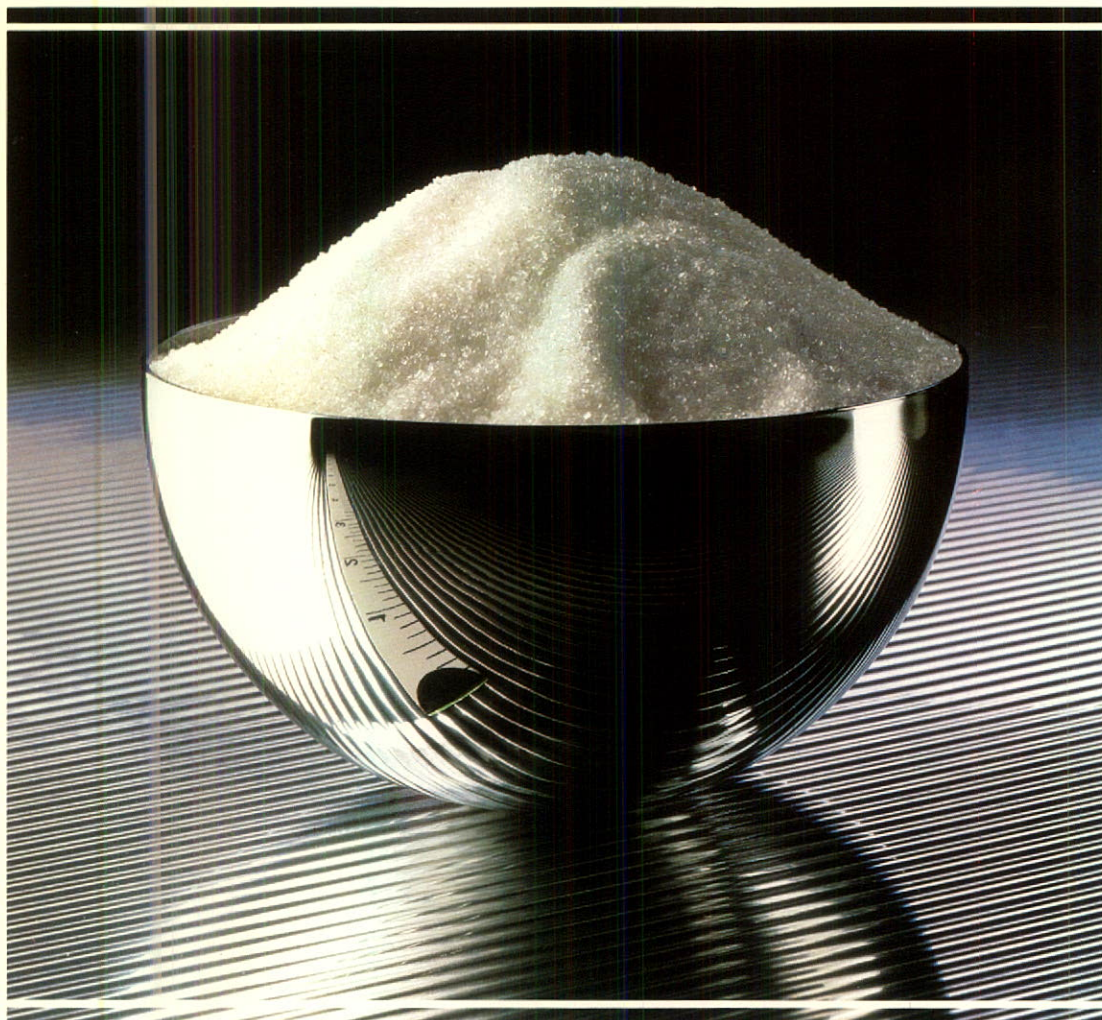
To the Shareholders of BC Sugar Refinery, Limited

We have examined the consolidated balance sheet of BC Sugar Refinery, Limited as at September 30, 1988 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, 1988 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, 1988

THORNE ERNST & WHINNEY
Chartered Accountants



THE SUGAR DIET.

If you've ever tried to lose weight, chances are you tried to avoid eating sugar. Most people do. And most diets fail. More than 90% of people who start a diet weigh the same or more one year later.

In most cases, that's because giving up sugar means giving up your favourite foods. It's easier to give up the diet.

Successful weight watchers know that a realistic diet includes the foods you normally eat and enjoy, but in smaller amounts. By allowing yourself modest portions of your favourite foods, you're making it easier to stay on the diet you started.

And consider this. Overweight people eat no more sugar than people of normal weight! Studies prove it.

So if you want to lose weight, don't just go on a diet. Stay on it. With a little help from sugar.



NOTHING EQUALS SUGAR.

The Canadian Sugar Institute continues to sponsor an advertising program based on the scientific support for sugar's role in a well-balanced diet.

DIRECTORS

OFFICERS

J. C. Anderson
President of Anderson Exploration Ltd.

R. Stuart Angus
Partner, Angus, McClellan, Rubenstein & Haslam

William C. Brown
President of the Company

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
Vice-Chairman and Director, Richardson Greenshields of Canada Limited

F. Cameron Wilkinson
Chairman of Wilkinson Company Limited

Peter A. Cherniavsky
Chairman and Chief Executive Officer

William C. Brown
President and Chief Operating Officer

John G. Cochrane
Vice-President, Finance and Secretary

David M. S. Elliott
Vice-President

James W. Hudson
Treasurer

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 Wednesday,
February 15, 1989 at 3:00 P.M.
in the Park Ballroom of
The Four Seasons Hotel,
Vancouver, British Columbia.

