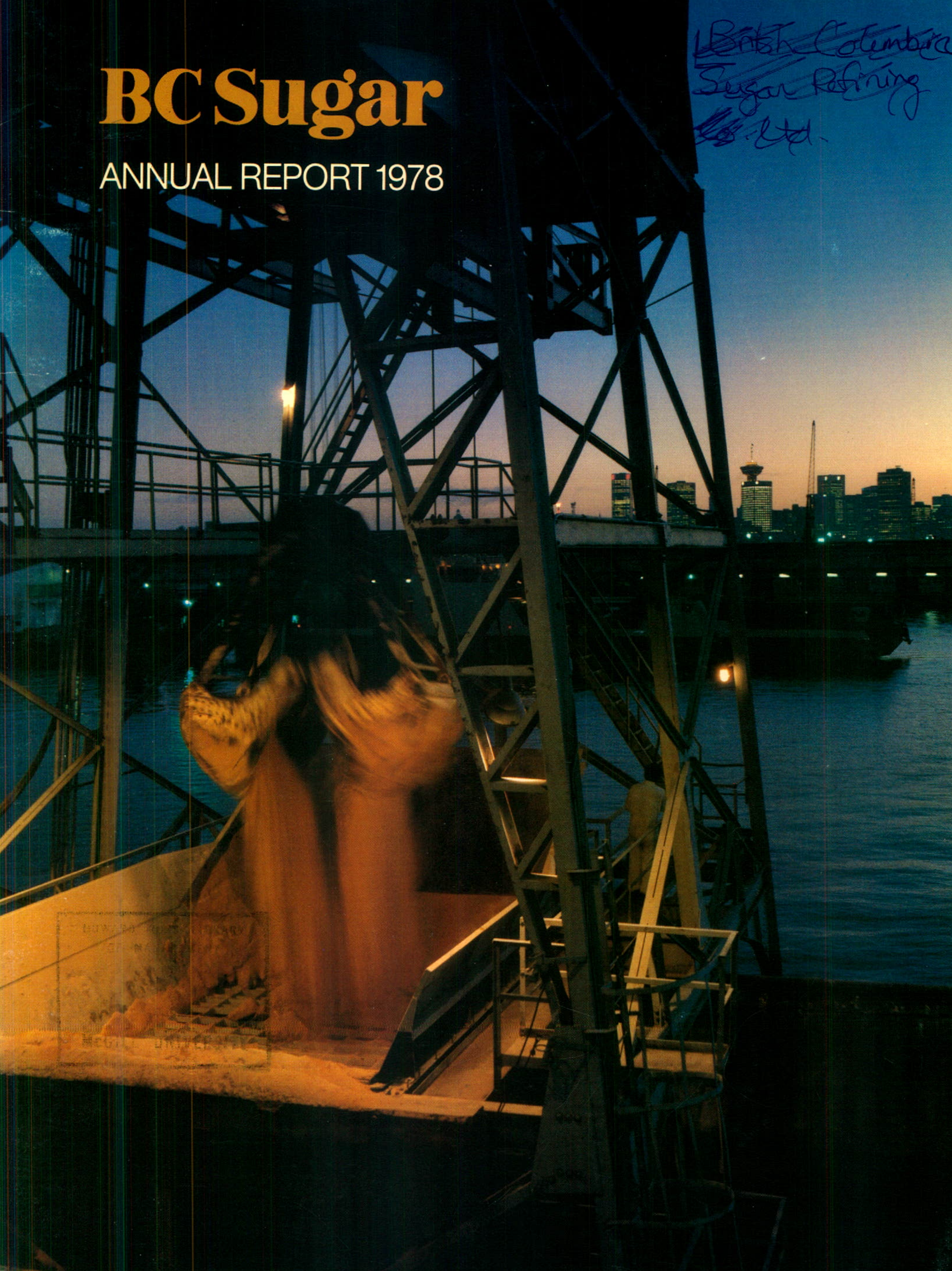
BC Sugar

ANNUAL REPORT 1978

British Columbia Sugar Refining Co. Ltd.



BC Sugar Refinery, Limited

Directors
(All residents of Vancouver, British Columbia)

Ian Angus
Vice-President of the Company

Peter A. Cherniavsky
President and Chief Executive Officer of the Company

H. Allan Dunlop
Retired, formerly Vice-President and Secretary of the Company

William R. Hetherington
Vice-President of the Company

John W. Pitts
President of Okanagan Helicopters Ltd.

Forrest Rogers
Chairman of the Board of the Company

H. Richard Whittall
Deputy Managing Partner, Richardson Securities of Canada

F. Cameron Wilkinson
President of Wilkinson Company Limited

Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, January 30, 1979 at 3:00 P.M. in the Arbutus Room of The Four Seasons Hotel, Vancouver, British Columbia.

Head Office

Location:
Rogers Street, Vancouver, B.C.

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

Stock Listings

Toronto and Vancouver Stock Exchanges

Transfer Agents

National Trust Company, Limited
Vancouver and Toronto

The Cover

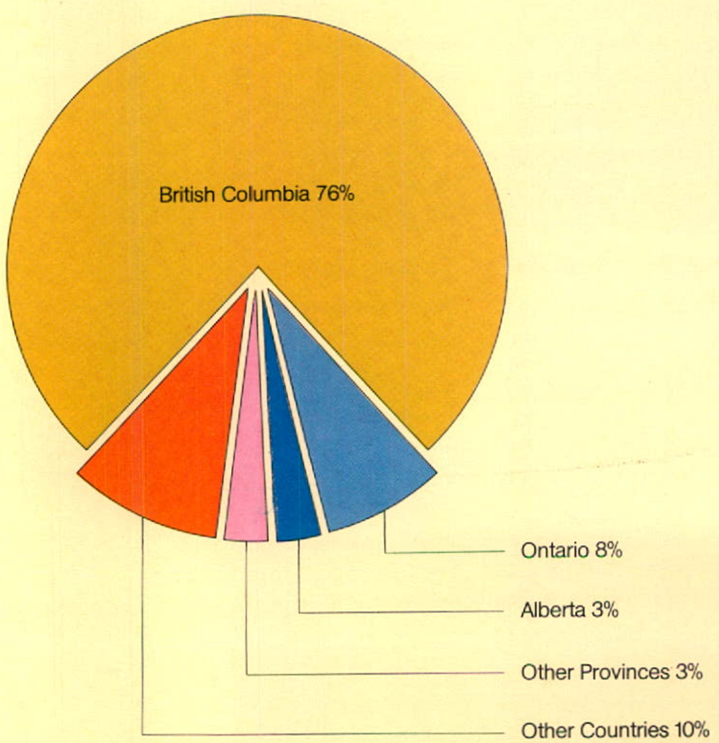
Unloading raw sugar at the Company's dock in Vancouver.

Highlights

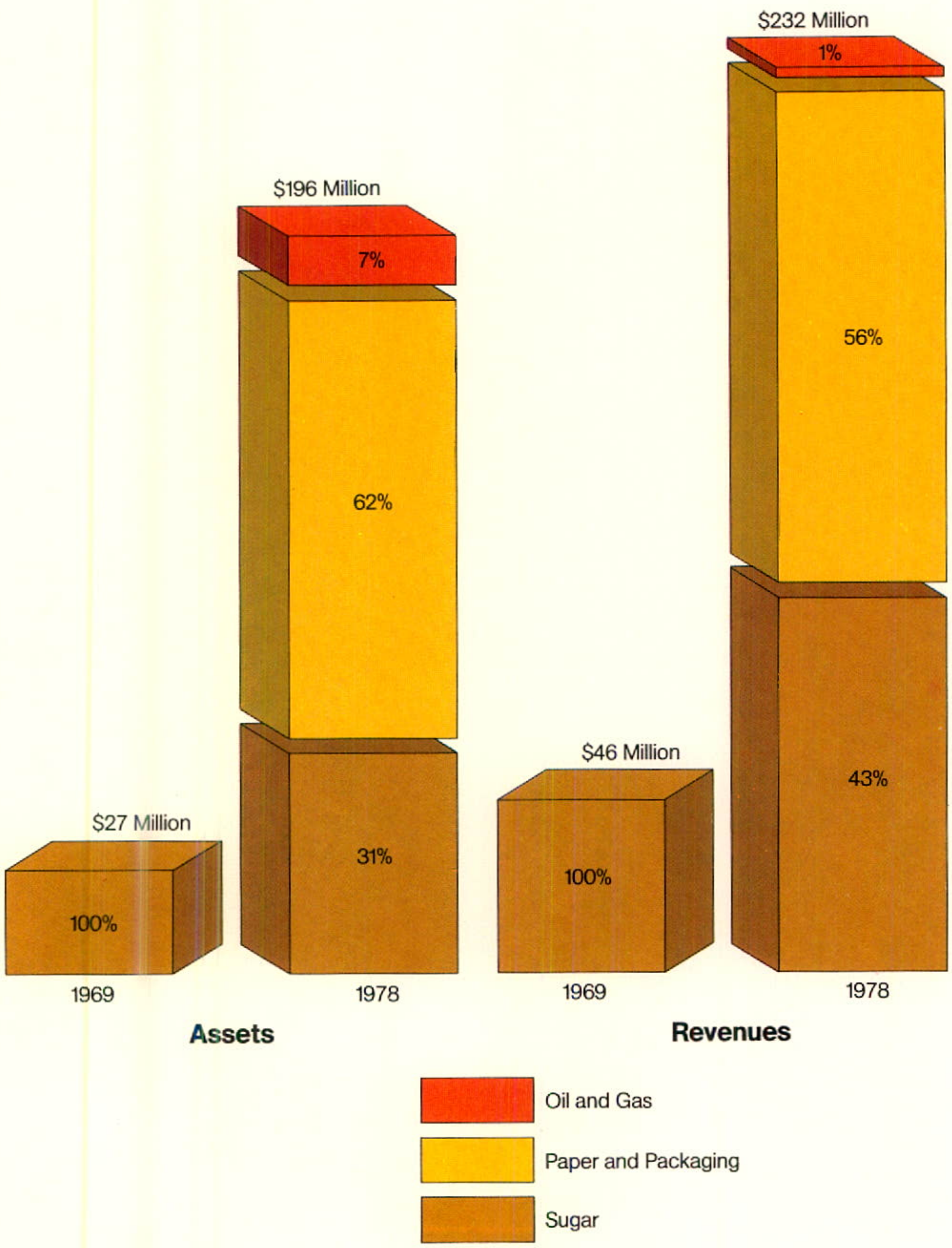
Years ended September 30

	1978	1977	1976
Revenues	**$232,118,000**	$198,671,000	$125,005,000
Net Earnings	**7,076,000**	6,904,000	5,140,000
Funds Provided from Operations	**16,610,000**	15,330,000	12,774,000
Capital Expenditures	**10,791,000**	8,057,000	29,708,000
Earnings per Common Share	**$2.89**	$2.82	$2.08
Dividends per Common Share	**2.00**	2.00	2.00
Number of Common Shareholders	**3710**	3695	3549

Geographic Distribution of Shareholders



To BC Sugar Shareholders



BC Sugar began operations as a small cane refinery in 1890, at a time when the West was very much a frontier land. Today the Company is a major producer of cane and beet sugar in western Canada. Sugar is produced at three locations—a cane refinery in Vancouver and two beet factories, one at Taber, Alberta, and the other at Winnipeg, Manitoba. The three plants are efficient and up to date and of sufficient capacity to serve customers' needs for some years ahead.

For the first 80 years of its existence, BC Sugar was dependent upon a single commodity (sugar). In the last 10 years, the Company has undergone a significant transformation and has moved into two other sectors of the Canadian economy—paper and packaging, and oil and gas. The Company now is well-positioned in three basic industries. The accompanying graphs visually show the changes that have occurred in assets and revenues.

There can be only a momentary pause to reflect upon the past. The task ahead is to generate increased earnings from a broadened asset base and develop a balanced, stable and growing entity to best serve the interests of employees, customers and shareholders.

Earnings in 1978 were $2.89 per common share compared to $2.82 in 1977. Dividends were maintained at $2.00 per common share, marking the 80th consecutive year of dividend payments. Regardless of plans for expansion in the coming years, it is felt that shareholders' interests are paramount, and the Company intends to continue its policy of paying out a substantial portion of earnings as dividends.

Sugar

The quantity of sugar sold in western Canada increased 6% over the previous year. It is hoped that this trend will continue as more eastern food manufacturers build facilities in the West.

The beet sugar division suffered from extremely low prices for its product. The world raw cane sugar market, to which our beet sugar prices are directly related, averaged well below the minimum envisaged in the International Sugar Agreement signed by most major importing and exporting countries at the end of the 1977 calendar year. Even by September 30, 1978 the world price remained at only 9 cents whereas the Agreement's target range is 11 cents to 21 cents per pound.

There are signs that world consumption is again increasing and that production is being curtailed due to International Sugar Agreement quota restrictions. This should bring about stronger prices and prevent a repeat of the 1974/75 supply imbalance that came from too lengthy a period of depressed prices. There are few, if any, sellers on the world market today who are not experiencing financial difficulties.

Paper and Packaging

Industry overcapacity and reduced activity in the Canadian manufacturing sector depressed earnings from paper and packaging. Strikes in some of the larger industries to whom our products are sold contributed to an already difficult situation.

Earnings from paper and packaging amounted to 18 cents per share in 1978, compared to 21 cents per share in 1977. However, the marked improvement in earnings which is anticipated in 1979 began to occur in the second half of fiscal 1978. A much more satisfactory operation of the new paper machine at the Burnaby Paperboard plant has been achieved, and start-up losses at two new packaging plants are being largely reduced.

Oil and Gas

An increased volume of natural gas sales, coupled with a higher price, enabled Fairweather Gas Ltd. to contribute 9 cents per share to consolidated earnings in 1978. While Fairweather's contribution to earnings is still relatively small, the assets lying behind those earnings have increased substantially since Fairweather was formed in June, 1976.

During fiscal 1978 BC Sugar contributed $1.3 million to Fairweather's exploration and development program, bringing the total contribution to $4.4 million out of BC Sugar's $10 million exploration and development commitment. The remaining $5.6 million will be invested in the next two fiscal years.

To all personnel who contributed to the success of our operations this past year, I would like to say thank you for a job well done.

On behalf of the Board

Peter A. Cherniavsky

President
BC Sugar

November 30, 1978
Vancouver, B.C.

Print Shop to Packaging Giant

**the story of
Belkin Packaging Ltd.
Somerville Belkin Industries Limited**

Corrugated paper machine, Richmond, B.C.

The acquisition in 1970 of a 50% interest in Belkin Packaging Ltd. marked an important move forward in BC Sugar's continuing growth and progress. It reflected a strong desire to diversify the Company's activities in the long-term interest of shareholders.

Year by year, the results of this acquisition have proven highly rewarding. Today, Belkin Packaging Ltd. and its recently-acquired subsidiary, Somerville Belkin Industries Limited, represent one of the largest packaging organizations in Canada.

To provide a keener insight into the various operations of Belkin, we are pleased to include in this year's Annual Report the story of its early beginnings and its dynamic development.

Morris Belkin.

It started with a print shop.

Morris Belkin graduated from the University of British Columbia in 1944 with a degree in Arts and an interest in newspaper production. He had worked for the university newspaper and had become familiar with the operations of the Point Grey News Gazette in Vancouver which printed the paper.

Hearing that the company was in receivership, Belkin gathered together enough money to buy the failing print shop. It was his first business venture and provided the means of entering the paper box business. The old cylinder presses were simply converted for die-cutting, and boxes were produced instead of newspapers.

Box making, at first a sideline to the printing operations, quickly assumed precedence in Belkin's mind. His selling efforts uncovered a ready market for a variety of paperboard cartons, and he became aware of a continent-wide trend which would change the face of packaging.

The right time—and the right people.

The rapid growth of supermarkets in the post-war years gave new impetus to the merchandising of packaged foods, and Belkin foresaw that this trend would create opportunities for companies able to produce bright, consumer-oriented packaging.

He formed a separate company—Belkin Paper Box Ltd.—which initially operated in the same premises as the print shop, in Vancouver's Kerrisdale district. With a total staff of five, the young company entered a market in which four well-established paper box companies already operated. Within three years, Belkin Paper Box required its own plant, and the operation was moved to a former warehouse on Kingsway in Vancouver.

The timing was excellent. The entire packaging industry was entering a boom period, and Belkin Paper Box was riding the crest. But there were other factors responsible for the new company's success. People, for one. Despite a limited range of equipment, Belkin Paper produced an impressive range of high quality packaging, and Morris Belkin gives his early staff full marks for ingenuity...and many of the creative people on staff in those early days are still with the company.

Corrugated plant and office, Edmonton, Alberta.

During the post-war years of rapid industrial growth, Belkin's positive attitude was just what the market needed. The company was soon ready to move beyond being a supplier for local packagers.

A new plant.

By 1954, with 42 employees, the Kingsway plant was bursting at the seams, producing an increasing variety of box patterns for local and regional accounts. Belkin was cautious about further plant expansion, unwilling to risk being over-extended if the upsurge in business should suddenly fade.

Then in May, 1956, a calamity forced Belkin into another major step. Fire gutted the plant, burning out the roof and damaging every piece of equipment.

While cleanup of the gutted plant began, Belkin arranged with competitors to utilize their packaging equipment during off-hours. Belkin personnel manned the equipment and met existing orders. Meanwhile, other company employees constructed a temporary roof and restored equipment to working order. But the need for a new plant was evident.

Folding carton plant, Richmond, B.C.

Construction began within weeks of the fire, and by January, 1957, the new plant was completed. Situated on River Road in Richmond, it had 36,000 square feet of plant space. Later that year, Belkin purchased a two-colour lithographic press—the first installed by a western packaging company.

At that time, most package printing was still produced on letterpress equipment. Where lithography was called for, jobs were farmed out to printing houses. However, in studying trends further afield—particularly in the United States—Belkin became convinced that lithography was the coming thing.

Hiring trained lithographers, the Belkin company not only made the move work, but set the trend for other boxmakers. Later, Belkin would be the first western packaging company to acquire a four-colour litho press and the first to install foil laminating equipment. In addition to its reputation for service, Belkin Paper Box became known as a highly innovative company—one that offered new and better ways of solving customers' packaging problems.

A new corrugator, a new name.

By 1962, the steady growth of Belkin's folding carton business enabled the company to diversify and enter the corrugated container industry. The corrugated plant was housed in a section of the newly-expanded Richmond plant…producing a variety of containers for the B.C. tree fruit industry and other customers. Also during 1962, the company name was changed to Belkin Packaging Ltd., reflecting the true status of a company producing not only boxes but paperboard packaging of every kind.

There followed a steady expansion of both the folding carton and corrugated operations, with the Richmond plant eventually growing fourfold. A major new source of business was gained in 1971, when the company acquired from the Excello Corporation the licence to produce Pure-Pak milk cartons. Today, Somerville Belkin produces Pure-Pak cartons in four locations across Canada, and is the nation's leading supplier of such cartons.

In 1972, a new corrugated plant was built on Viking Way in Richmond, B.C. This was augmented in 1976 with another plant in Edmonton. While the corrugated and folding carton operations enjoyed impressive growth, other steps were being taken which would also profoundly affect the company.

Corrugated plant, Richmond, B.C.

Roll stock made from recycled paper, Burnaby paperboard mill.

Robert F. Krause.

Solving the paperboard problem.

From the beginning, Belkin faced problems in obtaining sufficient paperboard to meet orders for folding cartons. In the early days, wartime quotas still applied to paperboard. As a new company, Belkin Paper Box had no quota at all, and was forced to buy paperboard wherever it became available, usually from U.S. suppliers.

By 1969 the company was seriously considering building a mill. Then, in the midst of these deliberations, came the opportunity to buy a local mill rather than build. The economy took a drastic downturn in the last half of 1969, making public financing virtually impossible. In order to enable him to acquire the paper mill, Belkin entered into partnership with BC Sugar.

The mill had two paper machines producing 55,000 tons per year. After the purchase, one machine was modified and production was increased substantially, and in 1976 a third machine was added which ultimately more than doubled the capacity of the mill to 165,000 tons annually.

Where the original two machines produced paperboard for folding cartons and gypsum wallboard, the new machine provides liner and medium for the making of corrugated containers. It is now the largest recycling paper mill in Canada.

A marriage of East and West.

While Belkin began supplying some packaging for eastern markets as early as the late fifties, the company had no plant of its own east of B.C. With its growing packaging volume, backed by acquisition of the paperboard mill, the company was ready to become a truly national organization.

The natural means of achieving this was through acquisition, and in 1976 an opportunity arose to purchase Somerville Industries Limited.

Established in 1886, Somerville had grown steadily to become a major supplier not only of packaging, but of plastics and automotive parts. Just prior to its acquisition by Belkin Packaging, Somerville employed 1,400 people and had annual sales of $69 million. A long-established eastern company, prominent in specific areas of packaging, the company had an excellent reputation for quality.

On December 31, 1976, Belkin Packaging purchased 100% of the common shares of Somerville. Combining the packaging operations of Belkin and Somerville created an organization that ranks as one of the largest in Canada in the production of folding cartons.

The new Board of Somerville Belkin chose as President a man with wide experience in packaging in the United States, Robert F. Krause, who had been Vice President of The Packaging Corporation of America.

Diversity—key to growth.

Today Belkin Packaging and Somerville Belkin employ over 2,200 people, and in 1978 the combined operations produced gross revenues of $129 million.

Belkin Packaging has a paperboard manufacturing plant in Burnaby, B.C. and corrugated plants in Richmond, B.C. and Edmonton, Alberta. Somerville Belkin has its head office in Mississauga, Ontario, and six packaging plants across Canada. Also part of Somerville Belkin are an automotive division, a plastics division, and a merchandising services department. In addition, Mastico Industries, an eastern manufacturer of soundproofing material for automobiles, is 50% owned by Somerville Belkin.

All in all, an impressive organization, with a range of products that touches the life of virtually every Canadian.□

Folding carton plant, Toronto, Ontario.

Automotive plant, Scarborough, Ontario.

Current Year– Belkins

Gross revenues reached a record level of $129, 347,000 in fiscal 1978, up from $96,484,000 in 1977, reflecting the inclusion of Somerville for 12 months in 1978 compared to 9 months in 1977. While earnings declined slightly in 1978, cash flow from operations increased from $3,982,000 to $5,579,000. Earnings in 1978 were adversely affected by start-up losses at new plants in Edmonton and Brockville, Ontario.

Operations at the Burnaby paperboard division improved in the last six months of the year as some of the production problems associated with the new paper machine were resolved following modifications in February, 1978. Further modifications are being carried out and will be completed early in 1979. The mill produced 131,000 tons during fiscal 1978, and a considerable increase in output is expected in 1979.

Corrugated container sales increased by 13% in 1978, despite the loss of substantial volume in Alberta and British Columbia due to strikes in the brewery and meat packing industries. The new Edmonton corrugated plant continued to depress earnings due to low selling prices and a shortage of skilled labour.

The automotive division is experiencing strong demand due to high car production and favourable foreign exchange rates. The addition of a new 2,000-ton press, to be delivered in mid-1979, will enable the Scarborough plant to meet substantial new orders booked for 1980 model cars.

During the year, Robert F. Krause was appointed President of Somerville Belkin Industries Limited, and the Head Office of Somerville was moved from London to Mississauga, Ontario.

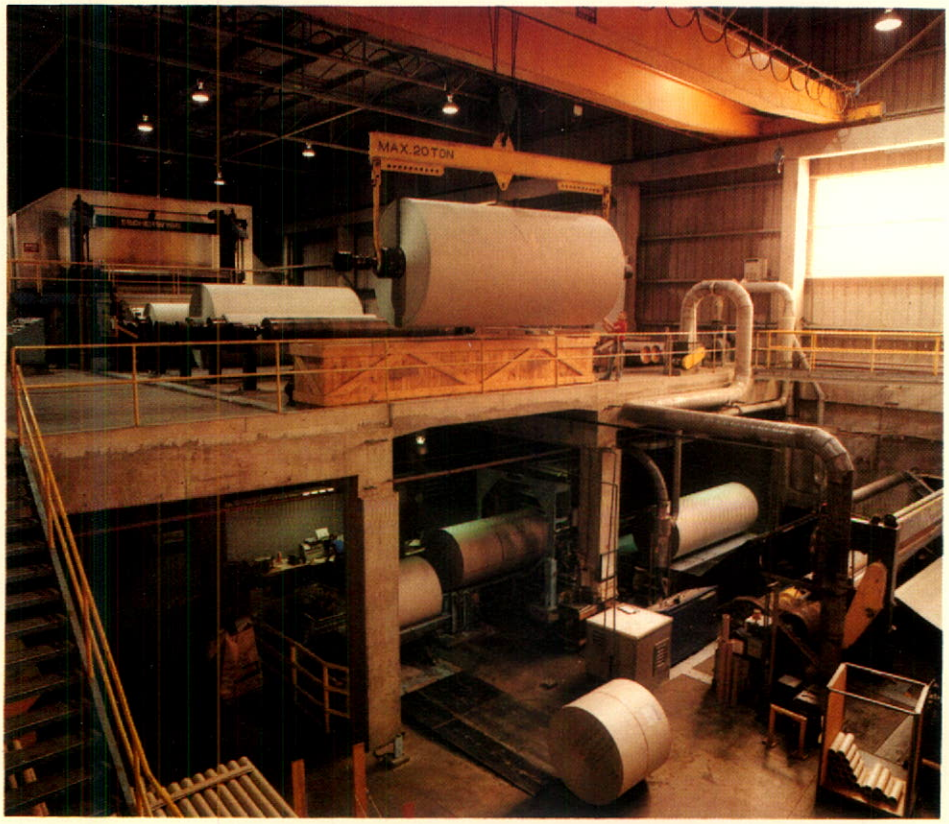
In summary, 1978 was a year of difficulty and challenge, but considerable improvement was seen in the last half. While 1978 earnings were roughly the same as the preceding year, results are expected to improve significantly in the coming year.

I would like to recognize the dedicated hard work of our many employees.

On behalf of the Board

Morris Belkin
Chairman
Belkin Packaging Ltd.

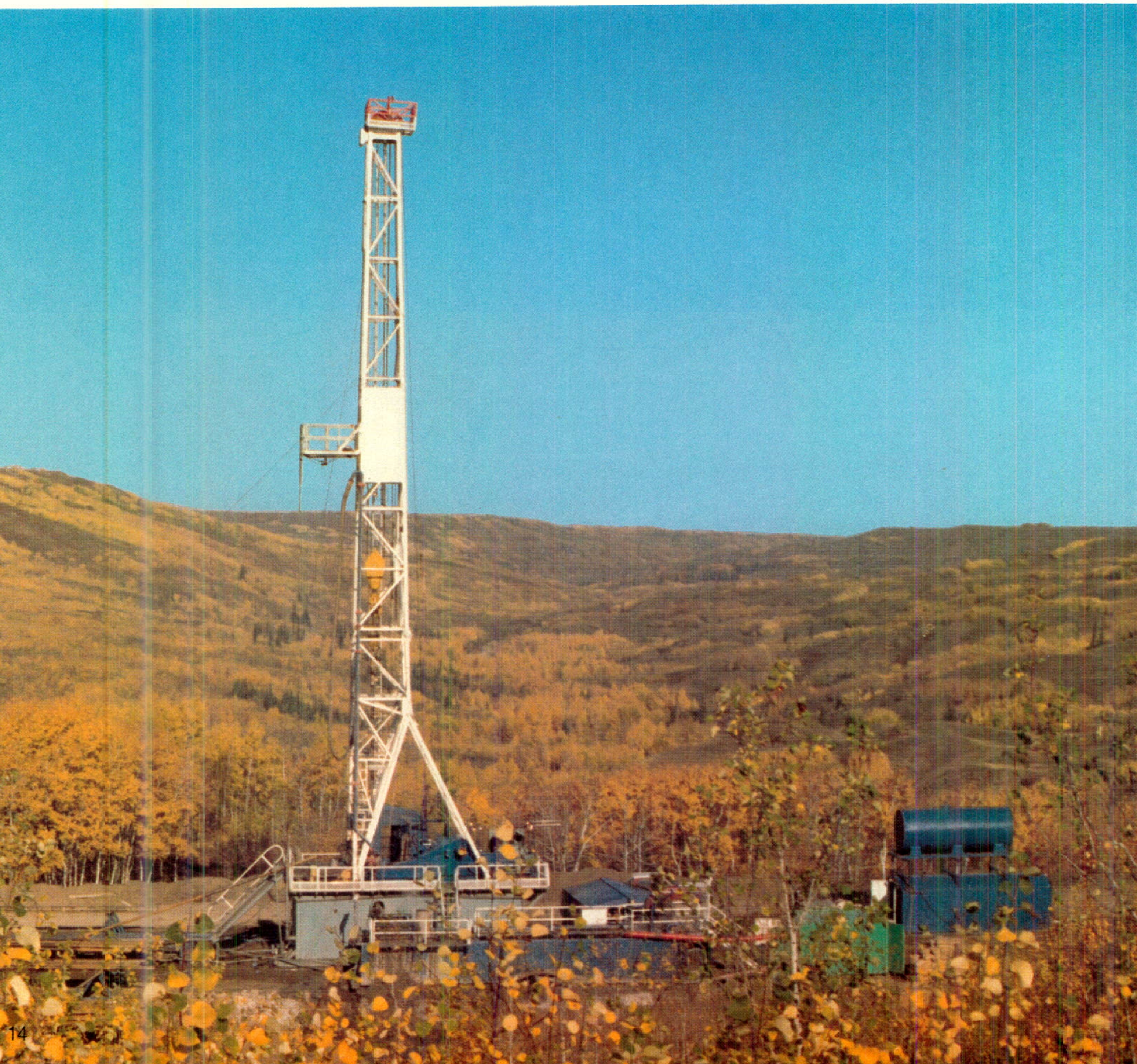
November 30, 1978
Vancouver, B.C.



New paper machine, Burnaby paperboard mill.

Oil and Gas

Exploratory drilling near the Dunvegan field, Alberta.



Exploration and Development

Fairweather Gas Ltd. continued its active exploration and development program by participating in the drilling of 61 wells during the year. The program resulted in 34 shut-in gas wells and 10 oil wells, for a total of 44 producers. The remaining 17 wells were dry and abandoned. The present lack of markets for natural gas diminishes the immediate need to drill step-out and development wells, so drilling activity in 1978 was reduced from the 100 wells drilled in 1977.

During the year, Fairweather and its joint venture partners participated in a farm-out agreement under which a major oil company will fund the drilling of 52 wells on Fairweather lands. Of the 61 wells drilled in 1978, 33 were drilled under the farm-out program, resulting in 20 shut-in gas wells, 2 oil wells, and 11 dry holes. The wells are being drilled at no cost to Fairweather, and the company funding the project earns one-third of Fairweather's interest in the lands involved. Funds spent for Fairweather's account under the 52-well program will be approximately $1.3 million. The program should be concluded in mid-1979.

The 10 oil wells completed in 1978 were part of an ongoing program in eastern Alberta. Although the major portion of the oil under Fairweather leases in this region is not economically recoverable under primary means, some heavy oil is now being produced from wells in the Lloydminster area.

Production and Gas Sales Prospects

Fairweather's production revenue, net of royalties, increased to $2.2 million in 1978 from $1.4 million in 1977. However, the Dunvegan field, Fairweather's main source of revenue, continued to suffer from gas marketing problems, operating at only 63% of productive capacity.

There appears to be a growing awareness at the federal and provincial government levels that there is, in fact, a growing surplus of gas, primarily in Alberta. Currently the National Energy Board (NEB) is holding hearings across the country to determine if there is an exportable gas surplus. A decision concerning additional gas exports to the United States is expected in mid-1979. Fairweather has been offered contracts for all of its shut-in gas reserves, contingent upon a favourable NEB decision. Such a decision could double Fairweather's production, assuming that the entire shut-in reserve inventory were to go on production.

Heavy oil production, Lloydminster area, Alberta.

Acquisition Activity

There has been a flurry of take-over activity in the oil and gas industry during the past year. A considerable amount of Fairweather management time has been spent in studying acquisition possibilities. A bid for the shares of a publicly-held, U.S.-controlled company was made in February, 1978, but the bid was unsuccessful.

Because of current gas marketing problems, even successful gas exploration does not result in early cash flow, so that acquisition of producing properties or companies with production has considerable attraction. However, acquisition prices are now quite high, and the combination of high prices and high interest rates will increase the difficulty of making prudent acquisitions at the present time.

Evaluation

For the first time since the formation of Fairweather, an independent evaluation of the Company's properties has been made. The study, conducted by the petroleum consulting firm of Kloepfer and Associates Ltd., Calgary, was considered necessary in order to gauge progress to date and establish a range of values for possible financing purposes, should the need arise.

In such a study the consultant examines all technical data and then estimates oil and gas reserves and makes predicitions of future producing rates for each property. Financial projections are then based on assumptions concerning timing of initial production, future royalties, future capital and operating costs, and product price predictions.

The evaluation established the following proven and probable reserves before royalty at September 30, 1978:

	NATURAL GAS Billion Cubic Feet	OIL AND GAS LIQUIDS Thousand Barrels
Proven	53.4	383.6
Probable	37.8	337.2
Total	91.2	720.8

Reserves are quoted before deducting royalties, because in Alberta royalty percentages change as product prices change.

Future pre-tax net revenue from proven reserves is predicted to be $91.7 million and from the total proven and probable reserves $183.6 million. As a rough gauge of present values, the future pre-tax net revenue discounted at 15% from proven and proven plus probable reserves amounts to $26.1 million and $35.4 million respectively.

Financial

Fairweather remains debt-free and has working capital in excess of $1.5 million. With internally-generated cash flow plus BC Sugar's remaining commitment of $5.6 million, Fairweather is in excellent financial condition and in a position to capitalize on any opportunities that may arise.

On behalf of the Board

J.C. Anderson

President
Fairweather Gas Ltd.

November 30, 1978
Calgary, Alberta

Statement of Earnings

BC Sugar Refinery, Limited and Consolidated Subsidiaries, Years ended September 30

(In Thousands of Dollars)

	1978	1977
Revenues		
Sales	$231,707	$198,331
Other	411	340
Total revenues	232,118	198,671
Costs and expenses		
Cost of sales	179,394	156,696
Selling, general and administrative	24,519	19,485
Depreciation, depletion and amortization	6,833	5,031
Long-term debt interest	5,556	3,202
Other interest	2,648	1,285
Total costs and expenses	218,950	185,699
	13,168	12,972
Income taxes	5,252	5,267
	7,916	7,705
Minority interest in earnings of subsidiary companies	840	801
Net earnings	$ 7,076	$ 6,904
Net earnings per common share	$2.89	$2.82

Statement of Reinvested Earnings

	1978	1977
Balance, beginning of year	$ 27,984	$ 26,023
Net earnings	7,076	6,904
	35,060	32,927
Dividends (Note 7)	4,929	4,943
Balance, end of year	$ 30,131	$ 27,984

Statement of Changes in Financial Position

BC Sugar Refinery, Limited and Consolidated Subsidiaries, Years ended September 30

(In Thousands of Dollars)

	1978	1977
Funds Were Provided By		
Operations		
Net earnings	**$ 7,076**	$ 6,904
Add charges not requiring an outlay of funds		
Depreciation, depletion and amortization	**6,833**	5,031
Income taxes provided not currently payable	**1,995**	2,755
Minority interest in earnings of subsidiary companies	**840**	801
Share of earnings of Mastico Industries Limited	**(134)**	(161)
Funds provided from operations	**16,610**	15,330
Increase in long-term debt	**–**	19,399
Issue of preferred shares of subsidiary held by minority interest	**2,895**	—
Total	**19,505**	34,729
Funds Were Used For		
Investment in fixed assets	**10,791**	8,057
Acquisition of subsidiary company, net of working capital	**–**	16,803
Payment of dividends		
Shareholders of the company	**4,929**	4,943
Minority shareholders of subsidiary companies	**3,250**	420
Decrease in long-term debt	**3,521**	—
Increase in deferred charges	**345**	612
Par value of preferred shares purchased in the open market	**240**	180
Increase in other assets	**774**	—
Total	**23,850**	31,015
Increase (decrease) in working capital	**(4,345)**	3,714
Working capital at beginning of year	**25,635**	21,921
Working capital at end of year	**$ 21,290**	$ 25,635

Balance Sheet

BC Sugar Refinery, Limited and Consolidated Subsidiaries, September 30

(In Thousands of Dollars)

	1978	1977
ASSETS		
Current Assets		
Cash and short-term deposits	**$ 2,632**	$ 2,845
Accounts receivable	**32,172**	27,374
Inventories (Note 3)	**55,720**	42,586
Prepaid expenses	**1,824**	2,178
Total current assets	**92,348**	74,983
Investments and Other Assets (Note 4)	**5,325**	4,410
Fixed Assets, at cost (Note 5)		
Property, buildings and equipment	**146,121**	134,916
Less accumulated depreciation and depletion	**53,949**	47,614
Total fixed assets	**92,172**	87,302
Deferred Charges and Intangible Assets, at cost less amortization		
Unallocated purchase price of shares in subsidiary	**3,825**	3,925
Deferred preproduction costs	**1,233**	1,371
Deferred lease payments	**645**	608
Bond discount and financing expenses	**374**	407
Total deferred charges and intangible assets	**6,077**	6,311
Total	**$195,922**	$173,006

	1978	1977
LIABILITIES		
Current Liabilities		
Bank loans, secured	**$ 33,586**	$ 22,747
Accounts payable and accrued liabilities	**31,870**	21,372
Dividends payable	**896**	924
Income taxes payable	**801**	1,580
Current portion of long-term debt	**3,905**	2,725
Total current liabilities	**71,058**	49,348
Long-Term Debt (Note 6)	**61,050**	64,571
Income Taxes Provided not Currently Payable	**16,863**	14,868
Minority Interest in Subsidiaries	**10,340**	9,515
Total	**159,311**	138,302
SHAREHOLDERS' EQUITY		
Share Capital		
Authorized: 6,000,000 Common shares of no par value		
168,333 5% cumulative Preferred shares redeemable at par value of $20		
Issued: 2,400,000 Common shares (Note 7)	**4,000**	4,000
124,000 Preferred shares (136,000 in 1977)	**2,480**	2,720
	6,480	6,720
Earnings Reinvested in the Business	**30,131**	27,984
Total shareholders' equity	**36,611**	34,704
Total	**$195,922**	$173,006

Commitments (Note 12)

Approved on behalf of the Board
Forrest Rogers, *Director.*
Peter A. Cherniavsky, *Director.*

Notes to Financial Statements

BC Sugar Refinery, Limited and Consolidated Subsidiaries, September 30, 1978

1. Significant accounting policies

a) Basis of presentation

The financial statements include the accounts of the wholly-owned subsidiary company, The British Columbia Sugar Refining Company, Limited and the partly-owned subsidiary companies, Belkin Packaging Ltd., Fairweather Gas Ltd. and Somerville Belkin Industries Limited ("Somerville"). The earnings of Somerville include its share of the earnings of its 50%-owned company, Mastico Industries Limited, which is accounted for on the equity basis.

b) Inventories

Inventories of beet sugar, paper and packaging products, and supplies are valued at the lower of average cost and replacement. 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 (21,575 tonnes at September 30, 1978) are valued at the lower of average cost and replacement. These quantities are hedged by futures contracts to reduce market risk. Earnings are charged with unrealized net losses related to open positions in the futures market, but unrealized net gains are not reflected in earnings.

The Company's basis of valuing cane sugar is not allowable for income tax purposes, and accumulated income taxes of $2,238,000 (1977—$1,895,000), applicable to the difference between the Company's basis of valuation and that required for income tax purposes, are added to inventory values.

c) Fixed assets

Fixed assets are valued at cost which, for major expansions of the paper and packaging operations after 1973, includes interest on funds borrowed during construction.

d) Depreciation

Assets used in sugar operations are depreciated on the diminishing balance basis using rates approximately equal to maximum allowances at normal rates under the Income Tax Act. Assets used in paper and packaging operations are depreciated on a straight-line basis which reflects estimates of their expected useful lives.

e) Depletion

The Company follows 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 composite unit of production method based on estimated proven reserves.

f) Deferred preproduction costs

Preproduction costs associated with major plant expansions incurred prior to commencement of commercial production are deferred and amortized over a period of years.

g) Unallocated purchase price of shares in subsidiary

The unallocated purchase price of shares in Somerville Belkin Industries Limited is being amortized over 40 years.

h) Translation of foreign currencies

Current assets and current liabilities in foreign currencies are translated into Canadian dollars at current rates. Other assets and liabilities are translated at historical rates.

2. Income taxes

The Company follows the tax allocation method of accounting whereby the income tax provision is based on earnings reported in the accounts. Accordingly, the Company makes full provision for income taxes not currently payable as a result of claiming capital cost allowances and exploration and development costs in excess of the amounts provided for depreciation and depletion in the accounts. Income taxes provided in the Statement of Earnings include $1,995,000 (1977—$2,755,000) not currently payable.

3. Inventories	1978	1977
Sugar	$28,392,000	$17,261,000
Paper and packaging products	22,662,000	21,034,000
	51,054,000	38,295,000
Supplies	4,666,000	4,291,000
	$55,720,000	$42,586,000

4. Investments and other assets	1978	1977
Investment in Mastico Industries Limited	$ 4,551,000	$ 4,410,000
Claim receivable	774,000	—
	$ 5,325,000	$ 4,410,000

The claim receivable arises out of the acquisition of the new paperboard machine of Belkin Packaging Ltd. which has not performed in accordance with the contractual requirements under which it was supplied. Advice has been obtained from legal counsel to the effect that there are good grounds for establishing liability, and it is therefore intended to make a claim against the supplier. Pending resolution of this matter, interest and other direct costs totalling $5,640,000, which are to be included as part of the claim, have been deducted from the unpaid balance of the price for the equipment. The excess ($774,000) of interest and other direct costs over the amounts due to the supplier is included in Investments and Other Assets (1977—credit balance of $545,000 was included in Long-Term Debt).

5. Fixed assets	Gross investment at cost	Accumulated depreciation and depletion	Net Investment 1978	Net Investment 1977
Land	$ 2,982,000	$ —	$ 2,982,000	$ 2,960,000
Oil and gas properties	11,991,000	1,093,000	10,898,000	10,479,000
Buildings and equipment	131,148,000	52,856,000	78,292,000	73,863,000
	$146,121,000	$53,949,000	$92,172,000	$87,302,000

6. Long-term debt

	1978	1977
The British Columbia Sugar Refining Company, Limited		
9½% First Mortgage Sinking Fund Bonds repayable to 1987	$ 5,054,000	$ 5,625,000
Belkin Packaging Ltd.		
Term bank loans (secured by a debenture and chattel mortgages) repayable to 1988 with interest rates varying between 1½% and 2% above the prime lending rates; $20,000,000 of this debt (included at par) is repayable in U.S. dollars	29,419,000	29,669,000
Income debenture at an interest rate of 2½% plus 50% of prime repayable to 1989	15,200,000	—
Interim bank loan	—	16,000,000
Promissory note (unsecured) repayable from 1980 to 1987 at an interest rate of 10%	4,857,000	4,857,000
Equipment contracts	—	545,000
Somerville Belkin Industries Limited		
8½% Sinking Fund Debentures Series "A" due 1993	7,500,000	7,600,000
Term bank loan (secured) with interest at 1½% above the prime lending rate	2,925,000	3,000,000
	64,955,000	67,296,000
Less current portion	3,905,000	2,725,000
Total long-term debt	$61,050,000	$64,571,000

Principal instalments on long-term debt due in each of the next five years are approximately:

1979	$ 3,905,000
1980	6,509,000
1981	6,322,000
1982	6,322,000
1983	6,322,000

7. Share capital

The issued common shares at September 30, 1978 comprise:

Class A	1,934,780
Class B	465,220
Total issued common shares	2,400,000

Class A and Class B shares are voting, convertible into one another on a share for share basis and rank equally with respect to dividends and in all other respects. Recent changes in the Income Tax Act preclude the payment of "tax-deferred" dividends on Class B shares after December 31, 1978. During the year the following dividends were declared:

Common shares	
Class A—	
$2.00 per share	$ 3,864,000
Class B—	
$2.00 per share including 15% tax thereon	936,000
	4,800,000
Preferred shares—$1.00 per share	129,000
Total dividends	$ 4,929,000

8. Pensions

The Company has a number of pension plans based on length of service and earnings, participation in which is available to substantially all employees. With respect to pension plans covering employees in sugar operations, at September 30, 1978 pension plan assets were estimated to be adequate to fund pension benefits. With respect to pension plans covering employees in paper and packaging operations, recent actuarial estimates of the unfunded liability for past services amounted to $750,000 which amount is being funded by additional annual contributions to 1993.

9. Anti-inflation legislation

The Company is subject to the Anti-Inflation Act which provides for the restraint of profit margins, prices, employee compensation and dividends. These restraints should not result in any material changes to the Company's reported earnings for the year ended September 30, 1978.

10. Business segments

1978	Revenues	Funds Provided From Operations	Contribution To Net Earnings
Sugar	$100,570,000	$10,230,000	$ 6,429,000
Paper and packaging	129,347,000	5,579,000	424,000
Oil and gas	2,201,000	801,000	223,000
Consolidated Total	$232,118,000	$16,610,000	$ 7,076,000

1977	Revenues	Funds Provided From Operations	Contribution To Net Earnings
Sugar	$100,827,000	$10,850,000	$ 6,388,000
Paper and packaging	96,484,000	3,982,000	483,000
Oil and gas	1,360,000	498,000	33,000
Consolidated Total	$198,671,000	$15,330,000	$ 6,904,000

11. Supplementary information

a) Other revenues	1978	1977
Equity in earnings of Mastico Industries Limited	$ 209,000	$ 161,000
Investment income	132,000	109,000
Gain on purchase of bonds and preferred shares	70,000	70,000
	$ 411,000	$ 340,000

b) Remuneration of directors and officers

The aggregate remuneration paid by the Company to the eight directors of the Company as directors was $13,000 and to its six officers, two of whom are also directors, was $465,000.

12. Commitments

The Company is committed to expend $5.6 million within the next two years on oil and gas exploration and development. Annual payments under leases in effect at September 30, 1978 are approximately $1.9 million. The terms of the leases vary from five to thirty years.

Auditors' Report

To the Shareholders

We have examined the balance sheet of BC Sugar Refinery, Limited and consolidated subsidiaries at September 30, 1978 and the related statements of earnings, reinvested 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 financial statements present fairly the financial position of the company as at September 30, 1978 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 27, 1978

THORNE RIDDELL & CO.
Chartered Accountants.

Five-Year Review

(Dollar amounts in thousands except per share figures)

FINANCIAL	**1978**	1977	1976	1975	1974
Revenues	**$232,118**	$198,671	$125,005	$162,526	$159,440
Operating costs	**203,913**	176,181	108,761	141,322	138,401
Interest	**8,204**	4,487	2,145	1,611	1,459
Depreciation, depletion and amortization	**6,833**	5,031	3,102	2,712	2,110
Costs and expenses	**218,950**	185,699	114,008	145,645	141,970
Earnings before undernoted items	**13,168**	12,972	10,997	16,881	17,470
Income taxes	**5,252**	5,267	4,595	7,004	7,396
Minority interest in earnings	**840**	801	1,262	698	1,209
Net earnings	**$ 7,076**	$ 6,904	$ 5,140	$ 9,179	$ 8,865
Earnings per common share	**$2.89**	$2.82	$2.08	$3.76	$3.62
Dividends per common share	**2.00**	2.00	2.00	2.00	1.80
Funds provided from operations	**$ 16,610**	$ 15,330	$ 12,774	$ 13,967	$ 13,513
Capital expenditures	**10,791**	8,057	29,708	11,565	3,267
Working capital	**21,290**	25,635	21,921	24,045	21,940
Long-term debt	**61,050**	64,571	37,572	15,920	10,440
OTHER INFORMATION					
Number of employees	**3,064**	3,074	1,495	1,470	1,468
Number of common shareholders	**3,710**	3,695	3,549	3,668	3,614

Subsidiary and Affiliated Companies

The British Columbia Sugar Refining Company, Limited	**Belkin Packaging Ltd.**	**Somerville Belkin Industries Limited**	**Fairweather Gas Ltd.**
100%-owned	**50%-owned**	**50%-owned**	**60%-owned**
Directors			
Ian Angus Peter A. Cherniavsky H. Allan Dunlop William R. Hetherington John W. Pitts Forrest Rogers H. Richard Whittall F. Cameron Wilkinson	Morris Belkin Helen M. E. Belkin Peter A. Cherniavsky John G. Cochrane Douglas J. McKinnon Forrest Rogers	Morris Belkin Peter A. Cherniavsky Robert F. Krause Ian A. MacDonald Douglas J. McKinnon Wallace H. Rayner Forrest Rogers	J. C. Anderson W. Gordon Brown Peter A. Cherniavsky John G. Cochrane William A. Willison
Officers			
Forrest Rogers *Chairman of the Board* Peter A. Cherniavsky *President and Chief Executive Officer* Ian Angus *Vice-President* William R. Hetherington *Vice-President* William C. Brown *Vice-President* John G. Cochrane *Secretary and Chief Financial Officer* William A. Davies *General Sales Manager* Stanley E. George *General Manager, Operations* J. Mac. Roxburgh *Technical Services Manager* David M. S. Elliott *Treasurer* William A. Willison *General Manager, Alberta Sugar* John W. Hall *General Manager, Manitoba Sugar*	Morris Belkin *Chairman of the Board, President and Chief Executive Officer* Douglas J. McKinnon *Vice-President of Finance and Secretary-Treasurer* Douglas G. Gallop *Vice-President, Corrugated Containers* Ronald C. Morgan *General Manager, Paperboard Division*	Morris Belkin *Chairman of the Board* Robert F. Krause *President and Chief Executive Officer* Wallace H. Rayner *Secretary-Treasurer* Leslie A. Biddie *Group Vice-President, Packaging East* Patrick B. McGarry *Group Vice-President, Packaging West* James C. Bacon *Group Vice-President, Special Products Divisions* Thomas E. White *Vice-President, Industrial Relations*	J. C. Anderson *President* Philip C. Evans *Land Manager* James F. Strayhan, Jr. *Controller* Robert J. Sumner *Operations Manager*
Head Office			
Location Rogers Street, Vancouver, B.C. Postal Address P.O. Box 2150, Vancouver, B.C. V6B 3V2	Location 8255 Wiggins Street, Burnaby, B.C. Postal Address P.O. Box 8930, Vancouver, B.C. V6B 4P5	Location and Postal Address 2000 Argentia Road, Plaza 5, Mississauga, Ontario L5N 2R7	Location and Postal Address Calgary House, 550–Sixth Avenue S.W., Calgary, Alberta T2P 0S2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