~~British Columbia Sugar Refining Co. Ltd.~~ C

BC Sugar Refinery, Ltd.

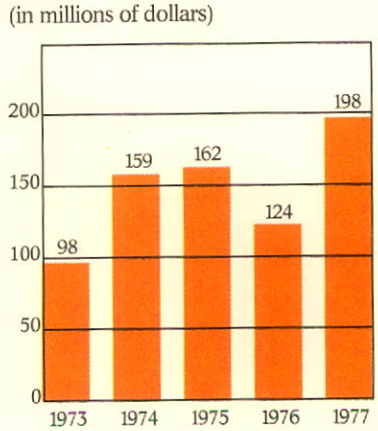
Annual Report 1977

Five-Year Summary
(Years ending September 30)

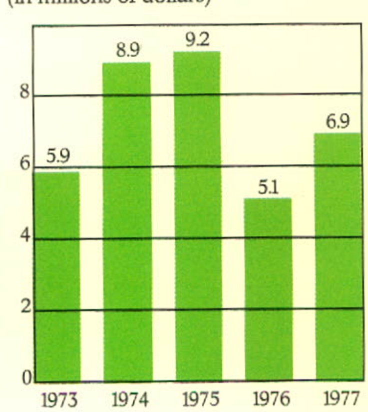
	1973	1974	1975	1976	**1977**
Per common share					
Earnings	$2.40	$3.62	$3.76	$2.08	**$2.82**
Dividends*	1.40	1.80	2.00	2.00	**2.00**
Market Price – High	23½	24	23⅜	23¾	**29**
– Low	18½	17	17½	19½	**20½**
Price/earnings ratio – High	10	7	6	11	**10**
– Low	8	5	5	9	**7**
Number of common shareholders	3,478	3,614	3,668	3,549	**3,695**
Degree of Canadian registration of common shares	90%	89%	90%	90%	**90%**

*including extra paid in following year

Sales
(in millions of dollars)



Earnings
(in millions of dollars)



Contents Page

Sugar Operations

Vancouver	Cane Refinery
Taber	Beet Factory
Picture Butte	Beet Factory
Winnipeg	Beet Factory

Livestock Feed Mfg.

Fertilizer Distribution

Belkin Packaging Ltd.

Burnaby	Paper Mill
Richmond	Packaging
Edmonton	Packaging

Somerville Belkin Industries Ltd.

Richmond	Packaging
Winnipeg	Packaging
Windsor	Automotive Products
London	Packaging, Games Manufacturing
Toronto	Packaging
Don Mills	Merchandising Services
Scarborough	Automotive Products
Bramalea	Plastics
Brockville	Packaging
Montreal	Packaging
Tillsonburg	Automotive Products

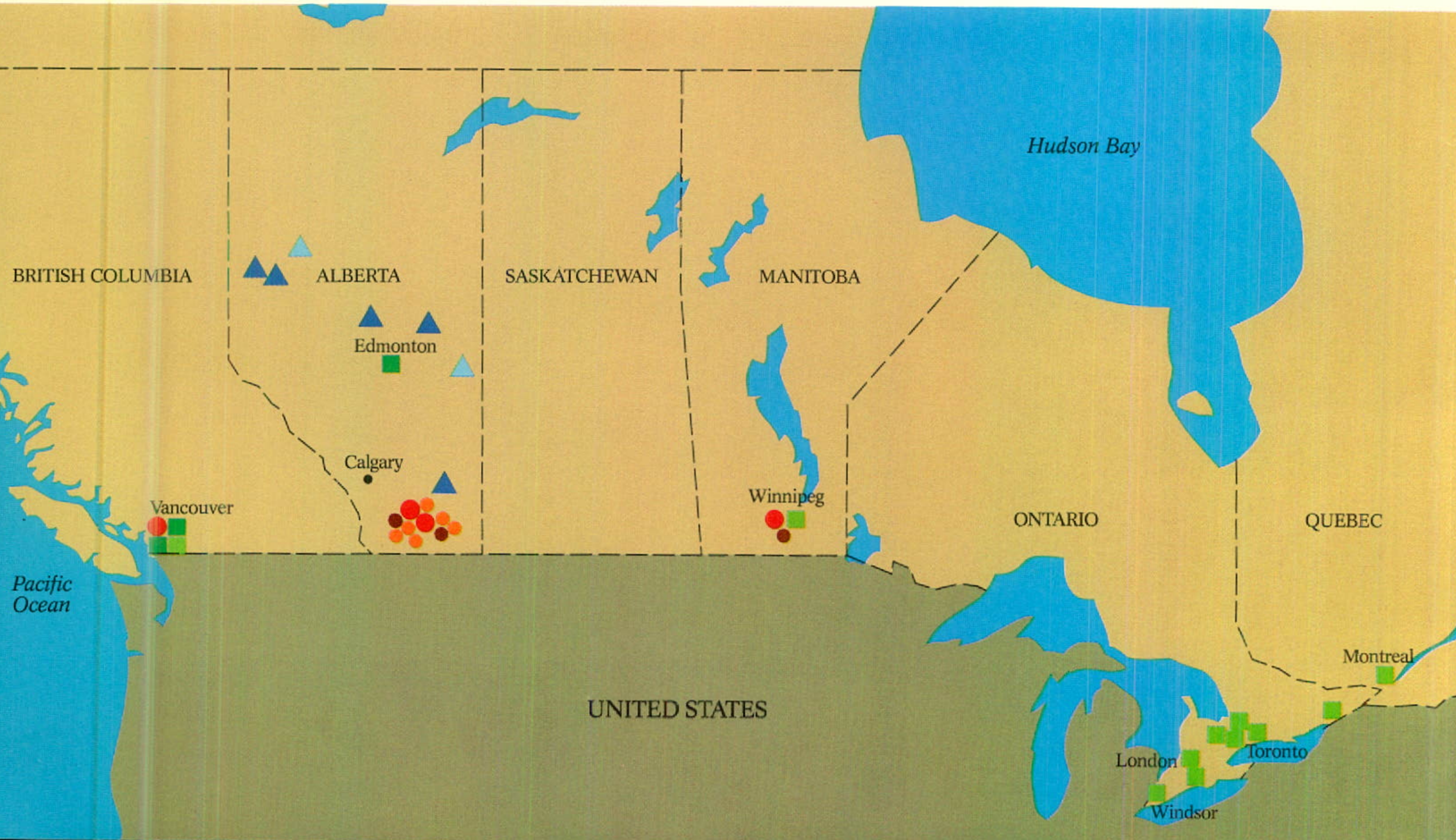
Fairweather Gas Ltd.

Producing Properties

Dunvegan
Codessa
Big Bend – Fawcett
Bellis – Smoky Lake
Princess

Major Exploration

Peace River Arch
Vermillion – Lloydminster



To BC Sugar Shareholders

On behalf of the Board of Directors, I take pleasure in presenting to shareholders a review of operations for the fiscal year ended September 30, 1977.

Earnings in 1977 were $2.82 per common share compared to $2.08 in 1976. While these results are satisfactory, a direct comparison between the two years is misleading owing to the lengthy strike at the Vancouver refinery during the 1976 fiscal year. Sugar operations again provided the major share of earnings, but Packaging and Oil and Gas are expected to contribute an increased share of earnings in future years.

Sugar

Low raw sugar prices, of between seven and ten cents a pound, prevailed during the year. There is an oversupply of sugar throughout the world and as a result prices are not expected to rise significantly for some time. Raw sugar producers are now operating near or below break-even levels.

The prospect of continued low sugar prices, combined with rising costs, has forced the Company to re-examine all facets of its operations. One major consequence has been the Board's decision to end processing of sugar beets at the Picture Butte factory after the current campaign. Alberta sugar beet processing will in future be concentrated at the larger Taber factory, which will operate for longer periods. Concentration of processing in larger factories and the closure of smaller ones has been the trend in the United States beet industry for several years.

Packaging

The major event of the year was the acquisition of Somerville Industries Limited by Belkin Packaging Ltd. The purchase took effect on January 1, 1977, and earnings from Somerville are included from that date. Somerville's name has been changed to Somerville Belkin Industries Limited and the company will operate as a subsidiary of Belkin Packaging Ltd. Your Company is pleased to have been involved in the creation of a new national packaging enterprise.

Earnings from packaging operations were below expectations. The packaging market was sluggish, and the new machine at the Burnaby paperboard mill has not performed up to contracted levels. Changes to be made in 1978 should rectify this situation, enabling the mill to supply a significant portion of Somerville Belkin's paperboard requirements.

Oil and Gas

Fairweather Gas Ltd. completed its first full year of operations with exploration results amply fulfilling expectations. During 1977, Fairweather spent $2.4 million on exploration and development, and by September 30, 1977, BC Sugar had contributed slightly over $3 million of its $10 million commitment to Fairweather.

Gas production and revenue were substantially less than anticipated, due to gas marketing problems. Fairweather has varying interests in over 100 Alberta gas wells which are shut-in awaiting markets. To receive revenue from these wells, new markets will have to develop.

Although 1977 was in many ways a difficult year, and although the general economic climate in Canada is not good, I am convinced that the Company is in a strong position in its three areas of operation: Sugar, Packaging, and Oil and Gas. Our greatest hope is for a reduction in government spending, which could reduce inflation, stimulate manufacturing, and create new employment opportunities.

Mr. William R. C. Patrick, who has been a director of BC Sugar since 1971, will be retiring from the Board this year, having reached mandatory retirement age. However, he has consented to remain in an advisory capacity to the Board for another two years.

I would like to recognize the dedicated efforts of employees in all departments who are in large measure responsible for the success of the Company.

On behalf of the Board

Peter A. Cherniavsky

President
BC Sugar Refinery, Limited

November 18, 1977
Vancouver, B.C.

Sugar

The International Scene

World sugar production is expected to reach 92 million tonnes in 1978. Consumption, on the other hand, will be about 85 million tonnes. To alleviate the oversupply problem, which has now prevailed for two years, importing and exporting nations met in Geneva in 1977 under the auspices of the United Nations to work towards a new International Sugar Agreement. At the eleventh hour the representatives agreed in principle to a Sugar Agreement that will take effect in January, 1978, and last for five years. The intent is to keep the price for raw sugar between 11¢ and 21¢ per pound. The method will consist of export quotas and reserve or "special" stocks. When prices are below the agreed range, export quotas will be cut. When prices approach the top of the range, reserve stocks will be released. This should prevent the sort of runaway market which developed in 1974. The reserve stocks (2.5 million tonnes) will be financed by a levy on all sugar traded in the world market.

It is unfortunate that the European Economic Community will not be an active party to the Agreement. The E.E.C. has taken the view that its highly subsidized exports cannot be curtailed. To a large extent, it is the E.E.C.'s surplus production that influences world prices. Countries whose economies are dependent upon sugar suffer accordingly. It should be noted that the E.E.C. has also stated that its export subsidy policy will not be affected by the General Agreement on Tariffs and Trade (G.A.T.T.).

The United States has indicated its intention to be a party to the Agreement but in the interim is having difficulty implementing a temporary policy designed to raise sugar prices. In September, 1976, the United States trebled its duty on raw sugar and more recently increased it by 50% to $2.81 per 100 pounds. The duty, plus a variable import fee of up to $3.32 per 100 pounds, is intended to raise the price of raw sugar in the United States to $13.50 per 100 pounds. This is the minimum level thought necessary to preserve the United States domestic industry. The United States is also unable to adjust its agricultural policies to meet the objectives of G.A.T.T.

Canada will be a major participant in the International Sugar Agreement, 90% of Canadian requirements being imported as raw sugar for refining. However, it may be some time before any significant effect on prices will be felt. History has shown that international sugar agreements have limited beneficial effects.

In 1974 the Canadian government temporarily reduced refined sugar tariffs (Most Favored Nation) from $1.40 to $1.20 per 100 pounds, having previously dropped the rate from $1.89 in 1973. This temporary rate was withdrawn in July, 1977. Protection for the domestic refining industry is 60¢ per 100 pounds after the preferential premium paid to raw sugar producers is taken into account. When price levels are low, protection afforded the beet industry is totally inadequate. Therefore, in considering today's market situation, it is the Company's view that no further reduction should be made to any Canadian sugar tariff.

In all sugar producing countries, there are tariff and non tariff barriers that protect domestic sugar industries. There is no valid reason why the Canadian industry should be treated differently. If the Canadian government negotiators at the G.A.T.T. talks reduce the miniscule sugar tariffs existing today, it could well result in serious damage to the beet sugar industry in the prairie provinces.

Picture Butte

The decision to cease beet processing at Picture Butte was not taken lightly but was arrived at only after the most careful study. The closure will not reduce the scale of the Alberta beet sugar industry; rather, it will enhance the industry's economic viability.

Basically the reasons for the closure relate to excessive cost of operation. Freight on beets, fuel prices, labor and material costs, all have been on an ever-increasing upward slope. In addition, capital expenditures exceeding $1 million had been

Unloading raw sugar in Vancouver

ordered by the Provincial Government for pollution control at the Picture Butte factory.

Apart from the problem of rising costs is the fact that the Taber factory can handle the entire crop. It is simply not economic to operate two plants when one is sufficient. In recent years the two factories have been operating for 80 to 90 days per year, when an economic run would be 120 to 130 days. Nor has the demand for sugar been great enough to warrant keeping both plants operating. Population growth (and hence the sugar market) has not reached the projections made 10 to 15 years ago.

The Company feels strong obligations towards long-term employees, and of the 68 permanent employees at Picture Butte, the greater majority will be offered employment at Taber.

Sugar and Health

It is regrettable that sugar continues to be the object of misinformation in the news media. Even the Canadian Ministry of National Health and Welfare has made unfounded and misleading statements about sugar.

It is our firm view, and that of most leading scientists in the nutrition field, that sugar is a perfectly healthy food, and that present levels of consumption are not excessive. This view is shared by the United States Food and Drug Administration which published a report on sucrose in July, 1976. The report concluded:

Other than the contribution made to dental caries, there is no clear evidence in the available information on sucrose that demonstrates a hazard to the public when used at the levels that are now current and in the manner now practiced.

On the matter of dental caries, it should be stressed that the disease is caused by bacteria, not by sugar, and while sugar and other carbohydrates may nourish the bacteria, prevalence of the disease is due to poor hygiene, not to sucrose itself.

Your Company has started taking active measures to combat misinformation about sugar and our effort will be increasing in 1978.

Anti-Inflation Legislation

The Company and its employees are subject to the Federal Government's Anti-Inflation Program. As a result, only one-year union contracts were negotiated in the spring of 1977.
It now appears the Company and its employees will be under guidelines for one more year, with some kind of monitoring after the end of 1978.
We are very grateful for the cooperation of our employees during these difficult times, and look forward to continued good relations.

Capital Improvements

Major investments were made at Taber in 1977. These included a $1 million flume-water clarifier, required by the Provincial Government for pollution control, and a new wet hopper, straight flume and wash house. Work also started on additional bulk sugar conditioning silos, as well as a distribution warehouse.

In Manitoba, a much improved pulp conveying system was installed, and new factory offices and a machine shop built. In Vancouver, there were several minor improvements, and work has begun on a major project – a new shipping warehouse.

Museum

In May, 1977, the BC Sugar Museum was opened to the public. The exhibits tell the story of sugar, and illustrate the history of the Company from its founding in 1890. A great number of interesting artifacts, pictures, and documents are on display, and the Museum has been very well received. It also serves as a base for tours of the Refinery, which have increased considerably, and several thousand visitors are expected this year. Shareholders are cordially invited to visit the Museum, which is open every week day.

The Company's beet sugar factory at Taber, Alberta


Somerville Belkin
sb
Packaging Group
Montreal Division

Packaging

The 1977 fiscal year was a period of substantial growth for Belkin Packaging Ltd., with gross revenues increasing to $96,300,000. These results include nine months' earnings of our new subsidiary, Somerville Belkin Industries Limited (formerly Somerville Industries Limited).

On June 30, 1977, the Folding Carton and Pure Pak Container Divisions of Belkin Packaging in Richmond, B.C., were sold to Somerville Belkin and now operate as part of their Packaging Division. This Division now has plants in Vancouver, Winnipeg, Toronto, London, Montreal, and a newly-completed operation in Brockville, Ontario. The Special Products Division of Somerville Belkin includes a plastics plant in Bramalea, Ontario; two automotive products plants – one in Scarborough and one in Windsor; a merchandising services operation in Don Mills; a games manufacturing Division in London, and a 50% interest in Mastico Industries Limited of Tillsonburg, Ontario. Mastico is a manufacturer of sound-deadening material, mainly for the automotive industry.

The nine-month results for Somerville Belkin reflect adverse economic conditions prevailing in the packaging industry and in Canada generally. Inability to recover rising costs due to intensive price competition has resulted in net earnings which are below expectations. However, after deducting related acquisition costs, Somerville Belkin's earnings provided a positive contribution to consolidated earnings.

During the year the Corrugated Container Division of Belkin Packaging completed its expansion into Edmonton, Alberta. Production in this new plant commenced in January, 1977, substantially increasing our ability to supply the western Canadian corrugated market. Start-up costs relating to this expansion, combined with unfavorable market conditions in both British Columbia and Alberta, prevented this Division from achieving its profit potential.

The Paperboard Division of the Company also had a disappointing year financially. Demand for paperboard remained strong, but demand for roofing felt decreased significantly in the latter part of the year, causing some downtime. This was due to the low level of home construction in western Canada (although this shortfall in demand has subsequently been offset by additional export volume). The profitability of the Division was also affected throughout the year by unrecoverable manufacturing cost increases, as well as by various production difficulties.

The expansion project adding the No. 5 paper machine at the Burnaby mill was completed late in 1976. However, throughout 1977 the machine failed to perform to contracted levels. Major modifications to the machine are underway and until satisfactory production levels and qualities are achieved, the machine is not scheduled to operate on a continuous basis. Belkin Packaging intends to claim damages against the equipment supplier. Despite a softening in the linerboard market, internal consumption and existing sales contracts will take up all the projected production of the new machine.

In summary, 1977 was one of our most difficult and financially disappointing years with consolidated net earnings totalling $1,139,000. Looking ahead – with a projected improvement in prices, anticipated productivity improvements, and cost reductions – we expect results to improve by the last half of fiscal 1978.

On behalf of the Board

Morris Belkin

Chairman
Belkin Packaging Ltd.

November 18, 1977
Vancouver, B.C.

Somerville Belkin Industries Limited, Montreal Division

Oil and Gas

Exploration and Development

During 1977, the first full year of operations, Fairweather Gas Ltd. participated in an active and successful exploration and development drilling program. The program, which was conducted as a joint venture with Anderson Exploration Ltd. of Calgary as operator, resulted in the drilling of 100 wells. Of these, 74 were completed for further evaluation, with all but one being potential gas wells. The remaining 26 wells were dry and abandoned. The Princess Field development in southeastern Alberta was also completed and has now been placed in production. Thirteen of the above-mentioned wells were drilled in the Princess area.

It is too early to quantify the exploration results in terms of future contributions to cash flow. However, it is management's opinion that substantial additions to net worth have been made.

Production

The main source of revenue for Fairweather is the Dunvegan gas field in the Peace River area of Alberta. Production was severely curtailed during the year with production averaging only 95 million cubic feet per day. This represents about 61% of the field's productive capability. The gas purchaser, Alberta and Southern Gas Co. Ltd., had a number of marketing problems, among them being a loss of a previously good local utility market and the lack of additional export markets.

It is anticipated that production will be higher in fiscal 1978. Alberta and Southern has advised that it expects to have to pay for gas not taken under the "take or pay" provisions of its contracts, but the amount that Fairweather will receive will not be known until the end of the gas contract year on June 30, 1978.

Gas Sales Prospects

With the high level of exploration activity in western Canada in the past few years, a substantial surplus of gas has developed. It cannot be absorbed by the Canadian market which is growing more slowly than governments and industry had anticipated. Some of the surplus could obviously be used to meet shortages in the United States. However, the Federal Government has not yet seen fit to permit additional exports.

One possibility being considered by the United States and Canadian governments is a "gas swap". Now that the Alaska Highway Pipeline is substantially approved to carry Alaskan gas across Canada to the other 48 mainland states, it may be that Canadian gas will be placed in the United States market now, to be replaced by Alaskan gas later.

Eastern Alberta Project

Through an initial purchase from Anderson Exploration, and subsequent drilling and purchases of Crown and Freehold leases, Fairweather has acquired an interest in about 244,000 gross acres of petroleum and natural gas rights in eastern Alberta. The acreage is located in an area extending 50 miles north and south of Lloydminster and about 50 miles west of the Saskatchewan border. Fairweather's working interest in the lands varies from 5% to 25%. The acreage was acquired on gas "plays", and subsequent drilling has proved successful from a gas point of view.

Perhaps even more important is the "heavy oil" potential of the lands. Drilling has proved substantial oil to exist "in place" under some of the lands, although a detailed study of volumes has not yet been made. Some of the oil in the area is extractable by primary means, but recovery is low because the oil is very viscous. Experimental schemes to increase recovery are being conducted in the area by other companies.

Although the economics of heavy oil recovery and upgrading are uncertain at present, there is certainly a rising interest in the exploitation of this resource. Fairweather is in a good position to capitalize on any favorable development.

On behalf of the Board

President
Fairweather Gas Ltd.

November 18, 1977
Calgary, Alberta

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

Financial

Dividends

Common stock dividends were maintained at $2.00 per share in 1977, unchanged from the previous two years. The year-end extra of 60 cents per share is payable on January 30, 1978. The Company has now paid dividends for 79 consecutive years.

Two important changes affecting the tax treatment of dividends were introduced in the March 31, 1977 Federal Budget and are now in the process of being enacted by Parliament. The first change will disallow the payment of tax-deferred dividends after December 31, 1978. This change will mean that after 1978 the Company's Class "B" shareholders will receive the same taxable dividends as Class "A" shareholders.

The second change will liberalize the dividend tax credit available to individual Canadian shareholders. This change will increase the after-tax return on dividends and should make dividend-paying securities more attractive.

The Company's dividend policy reflects a number of factors, one of which is the dividend policy of its subsidiaries. It is not unusual for the earnings of subsidiary companies to be unavailable for distribution to a parent company; either because they are committed for expansion or otherwise restricted, or because they cannot readily be repatriated from a foreign country. However, in the case of Belkin Packaging Ltd. and Fairweather Gas Ltd., it is the policy of these companies to pay out a significant portion of their earnings as cash dividends, so that such earnings will be available for distribution to BC Sugar shareholders.

Financing

The acquisition of Somerville Industries Limited was financed by special long-term financing negotiated by Belkin Packaging Ltd. In 1977, capital improvements to sugar facilities and expenditures on oil and gas exploration and development were financed out of cash flow from operations.

Over the next two years, capital expenditures relating to Sugar operations and Oil and Gas operations are expected to total $15 million. The Company has arranged long-term financing which can be drawn down as required.

In recent years, cash flow from operations has increased relative to earnings. This increase in internally generated funds has enabled the Company to modernize its manufacturing facilities and participate in the search for new sources of energy for Canada.

During the year, the Company's bondholders approved by a 95% majority amendments to the Company's Trust Deed. The amendments increase the long-term borrowing capacity of BC Sugar and permit Fairweather Gas Ltd. to borrow funds on a long-term basis. While no major acquisitions are under consideration at the present time, these changes were considered prudent in the event that new opportunities arise.

BC Sugar Shareholders

Sugar

Revenues: $100.7 million
Cash flow from operations: $10.8 million

- **BC Sugar**
- **Canadian Sugar Factories**
- **Manitoba Sugar**
  - Sugar
  - Syrup
  - Dried beet pulp
  - Feed molasses

Packaging

Revenues: $96.3 million
Cash flow from operations: $4.0 million

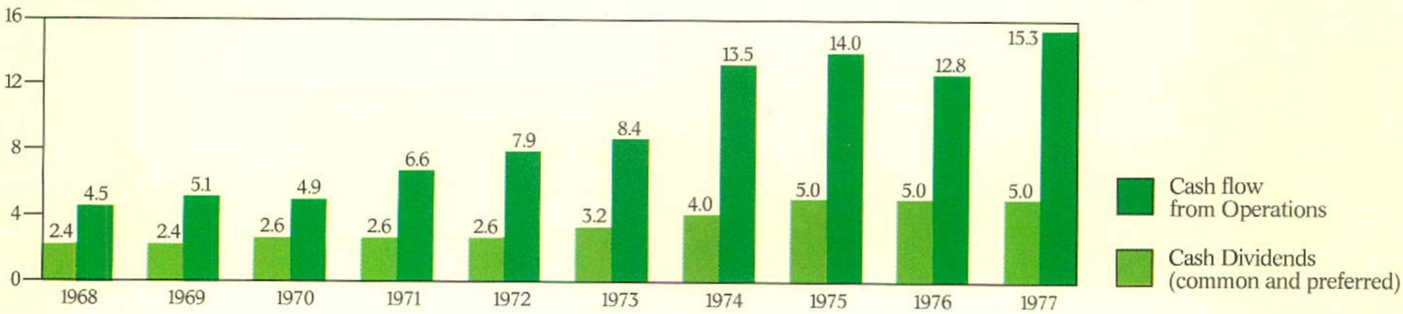
- **Belkin Packaging**
- **Somerville Belkin Industries**
  - Paperboard
  - Folding cartons
  - Corrugated containers
  - Special products

Oil and Gas

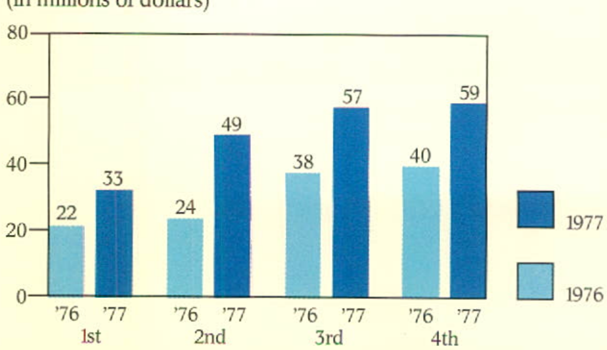
Revenues: $1.3 million
Cash flow from operations: $.5 million

- **Fairweather Gas**
  - Natural gas
  - Oil
  - Natural gas liquids

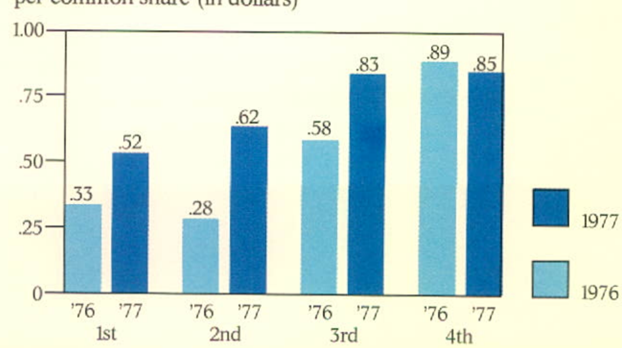
Cash Flow and Cash Dividends
(in millions of dollars)



Sales by Quarter
(in millions of dollars)



Earnings by Quarter
per common share (in dollars)



Statement of Earnings

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

(In Thousands of Dollars)

	1977	1976
Revenues		
Sales	$198,331	$124,313
Other	340	692
Total Revenues	198,671	125,005
Costs and expenses		
Cost of sales	156,696	95,571
Selling, general and administrative	19,485	13,190
Depreciation, depletion and amortization	5,031	3,102
Long-term debt interest	3,202	1,012
Other interest	1,285	1,133
Total Costs and Expenses	185,699	114,008
	12,972	10,997
Income taxes	5,267	4,595
	7,705	6,402
Minority interest in earnings of subsidiary companies	801	1,262
Net earnings	$ 6,904	$ 5,140
Net earnings per common share	$2.82	$2.08

Statement of Reinvested Earnings

	1977	1976
Balance, beginning of year	$ 26,023	$ 25,838
Net earnings	6,904	5,140
	32,927	30,978
Dividends (Note 7)	4,943	4,955
Balance, end of year	$ 27,984	$ 26,023

Statement of Changes in Financial Position

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

(In Thousands of Dollars)

	1977	1976
Working Capital Provided		
Net earnings	**$ 6,904**	$ 5,140
Add: Depreciation, depletion and amortization	**5,031**	3,102
Income taxes provided not currently payable	**2,755**	3,270
Minority interest in earnings of subsidiary companies	**801**	1,262
Share of earnings of 50%-owned company	**(161)**	–
Total from operations	**15,330**	12,774
Increase in long-term debt	**19,399**	21,652
Total	**34,729**	34,426
Working Capital Applied		
Investment in fixed assets	**8,057**	29,708
Acquisition of subsidiary company, net of working capital	**16,803**	–
Payment of dividends		
Shareholders of the company	**4,943**	4,955
Minority shareholders of subsidiary companies	**420**	390
Increase in deferred charges	**612**	1,217
Par value of preferred shares purchased in the open market	**180**	280
Total	**31,015**	36,550
Increase (Decrease) in Working Capital	**3,714**	(2,124)
Working Capital at beginning of year	**21,921**	24,045
Working Capital at end of year	**$ 25,635**	$ 21,921

Auditors' Report

To the Shareholders

We have examined the balance sheet of BC Sugar Refinery, Limited and consolidated subsidiaries as at September 30, 1977 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, 1977 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, B.C.
December 6, 1977

THORNE RIDDELL & CO.
Chartered Accountants.

Balance Sheet

BC Sugar Refinery, Limited and Consolidated Subsidiaries, September 30

(In Thousands of Dollars)

	1977	1976
ASSETS		
Current Assets		
Cash and short-term deposits	**$ 2,845**	$ 3,950
Accounts receivable	**27,374**	15,174
Income taxes recoverable	**–**	2,106
Inventories (Note 4)	**42,586**	20,215
Prepaid expenses	**2,178**	1,110
Total current assets	**74,983**	42,555
Investment in 50%-owned Company	**4,410**	–
Fixed Assets, at cost (Note 5)		
Property, buildings and equipment	**134,916**	106,345
Less accumulated depreciation and depletion	**47,614**	43,379
Total fixed assets	**87,302**	62,966
Deferred Charges and Intangible Assets, at cost less amortization		
Unallocated purchase price of shares in subsidiary	**3,925**	–
Deferred preproduction costs	**1,371**	956
Deferred lease payments	**608**	532
Bond discount and financing expenses	**407**	219
Total deferred charges and intangible assets	**6,311**	1,707
Total	**$173,006**	$107,228

	1977	1976
LIABILITIES		
Current Liabilities		
Bank loans, secured	**$ 22,747**	$ 2,019
Accounts payable and accrued liabilities	**21,372**	14,648
Dividends payable	**924**	851
Income taxes payable	**1,580**	–
Current portion of long-term debt	**2,725**	3,116
Total current liabilities	**49,348**	20,634
Long-Term Debt (Note 6)	**64,571**	37,572
Income Taxes Provided not Currently Payable	**14,868**	9,136
Minority Interest in Subsidiaries	**9,515**	6,963
Total	**138,302**	74,305
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
136,000 Preferred shares (145,000 in 1976)	**2,720**	2,900
	6,720	6,900
Earnings Reinvested in the Business	**27,984**	26,023
Total shareholders' equity	**34,704**	32,923
Total	**$173,006**	$107,228

Commitments (Note 11)

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, 1977

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 Statement of Earnings includes the earnings of Somerville from date of acquisition, December 31, 1976. 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. Quantities of cane sugar in excess of this amount, which are valued at the lower of average cost and replacement, are hedged and are not at market risk.

The Company's basis of valuing cane sugar is not allowable for income tax purposes, and accumulated income taxes of $1,895,000 (1976 – $1,923,000), 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 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 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. Business acquisition

On December 31, 1976, Belkin Packaging Ltd. acquired 100% of the common shares of Somerville Belkin Industries Limited. The operating results of this acquisition have been included in these consolidated financial statements from January 1, 1977.

Pending final appraisal of certain tangible assets, the effect of this share transaction on the Company's balance sheet at the date of acquisition is summarized below:

Fixed assets	$20,359,000
Equity in 50%-owned company	4,250,000
Unallocated purchase price of shares in subsidiary company	4,000,000
Debt financing costs	219,000
Sinking fund for preferred shares	108,000
	28,936,000
Deduct	
Long-term debt	7,600,000
Deferred income taxes	2,977,000
Minority interest	1,556,000
	12,133,000
	16,803,000
Working capital acquired	9,978,000
Total	$26,781,000

The consideration paid for this acquisition was cash obtained largely from bank borrowings and a note payable to the vendor of $4,857,000.

3. 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 $2,755,000 (1976 – $3,270,000) not currently payable.

4. Inventories	1977	1976
Sugar	$17,261,000	$10,420,000
Paper and packaging products	21,034,000	6,529,000
	38,295,000	16,949,000
Supplies	4,291,000	3,266,000
	$42,586,000	$20,215,000

5. Fixed assets

	Gross investment at cost	Accumulated depreciation and depletion	Net Investment 1977	Net Investment 1976
Land	$ 2,960,000	$ –	$ 2,960,000	$ 929,000
Oil and gas properties	11,018,000	539,000	10,479,000	7,461,000
Buildings and equipment	120,938,000	47,075,000	73,863,000	54,576,000
	$134,916,000	$47,614,000	$87,302,000	$62,966,000

6. Long-term debt.

	1977	1976
The British Columbia Sugar Refining Company, Limited $9\frac{1}{2}\%$ First Mortgage Sinking Fund Bonds repayable to 1987	$ 5,625,000	$ 6,626,000
Belkin Packaging Ltd.		
Term bank loans (secured by a debenture and chattel mortgages) repayable to 1987 with interest rates varying between $1\frac{1}{2}\%$ and 2% above the prime lending rate; $20,000,000 of this debt is repayable in U.S. dollars	29,669,000	28,078,000
Interim bank loan (pending the provision of an income debenture) at an interest rate of $1\frac{1}{2}\%$ above the prime lending rate	16,000,000	2,379,000
Promissory note (unsecured) repayable from 1980 to 1987 at an interest rate of 10%	4,857,000	–
Equipment contracts	545,000	3,605,000
Somerville Belkin Industries Limited $8\frac{1}{2}\%$ Sinking Fund Debentures Series "A" due 1993	7,600,000	–
Term bank loan (secured) with interest at $1\frac{1}{2}\%$ above the prime lending rate	3,000,000	–
	67,296,000	40,668,000
Less current portion	2,725,000	3,116,000
Total long-term debt	$64,571,000	$37,572,000

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

1978	$ 2,725,000
1979	5,820,000
1980	6,430,000
1981	6,242,000
1982	6,242,000

The new paperboard machine of Belkin Packaging Ltd. 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 $3,907,000, which are to be included as part of the claim, have been deducted from the unpaid balance of the price for the equipment. The net amount of $545,000 is included in long-term debt.

7. Share capital

The issued common shares at September 30, 1977 comprise:

Class A	1,930,295
Class B	469,705
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. The only distinction between the two classes is that the directors may specify that cash dividends on Class B shares be paid out of tax-paid undistributed surplus on hand, with the result that Class B dividends so paid will be less than the Class A dividends by the amount of the 15% tax paid thereon by the Company.
During the year the following dividends were declared:

Common shares	
Class A –	
$2.00 per share	$ 3,886,000
Class B –	
$2.00 per share including 15% tax thereon	914,000
	4,800,000
Preferred shares – $1.00 per share	143,000
Total dividends	$ 4,943,000

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, 1977 pension plan assets were estimated to be adequate to fund pension benefits. With respect to pension plans covering employees in packaging operations, recent actuarial estimates of the unfunded liability for past services amounted to $850,000, which amount is being funded by additional annual contributions to 1987.

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, 1977.

10. Supplementary information

a) Sales revenues	1977	1976
Sugar	$100,658,000	$ 87,413,000
Packaging	96,323,000	36,597,000
Oil and Gas	1,350,000	303,000
	$198,331,000	$124,313,000

b) Other revenues	1977	1976
Gain on purchase of bonds and preferred shares	$ 70,000	$ 159,000
Investment income	109,000	21,000
Equity in earnings of 50%-owned company	161,000	–
Capital gain on foreign exchange	–	512,000
	$ 340,000	$ 692,000

c) 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, three of whom are also directors, was $477,000.

11. Commitments

The Company is committed to expend $7 million within the next three years on oil and gas exploration and development.

Annual payments under leases in effect at September 30, 1977 are approximately $1.5 million. The terms of the leases vary from five to thirty years.

Directors and Officers

DIRECTORS
(All residents of Vancouver, British Columbia)

Forrest Rogers,
Chairman of the Board

Peter A. Cherniavsky,
President and Chief Executive Officer

Ian Angus,
Vice-President

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

William R. C. Patrick,
Retired, formerly Regional Managing Partner of
Thorne Riddell & Co., Vancouver

John W. Pitts,
President of Okanagan Helicopters Ltd.

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

F. Cameron Wilkinson,
President of Wilkinson Company Limited

OFFICERS
(Other than those who are also Directors)

William R. Hetherington,
Vice-President

William C. Brown,
Second 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, Canadian Sugar Factories,
Lethbridge, Alberta

John W. Hall,
General Manager, Manitoba Sugar, Winnipeg, Manitoba

HEAD OFFICE:
Foot of Rogers Street, Vancouver, B.C.

SHARES TRADED:
Toronto Stock Exchange
Vancouver Stock Exchange

TRANSFER AGENT:
National Trust Company, Limited,
Vancouver and Toronto

BC SUGAR
Rogers.
REFINERY

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