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

C

B.C. Sugar

Refinery, Ltd.

B.C. SUGAR
Rogers
TRADE MARK REGISTERED
REFINERY

CANADIAN
SUGAR
FACTORIES

PURE
GRANULATED
SUGAR
PRODUCT OF
MANITOBA

Annual Report 1970

B C SUGAR REFINERY,
LIMITED

VANCOUVER, B.C. SEPTEMBER 30, 1970

DIRECTORS

F. ROGERS*	Vancouver, B.C.
I. ANGUS*	Vancouver, B.C.
P. A. CHERNIAVSKY*	Vancouver, B.C.
H. A. DUNLOP*	Vancouver, B.C.
J. W. PITTS	Vancouver, B.C.
R. H. TUPPER	Vancouver, B.C.
H. R. WHITTALL	Vancouver, B.C.
F. C. WILKINSON	Vancouver, B.C.

*Officers of the Company.

Head Office: Ft. Rogers St.,
Vancouver 6, B.C.

Registrar and Transfer Agent:
National Trust Company, Limited,
Vancouver and Toronto

OFFICERS AND OFFICIALS OF WHOLLY-OWNED SUBSIDIARY COMPANIES

F. ROGERS	Chairman of the Board, President and Managing Director
P. A. CHERNIAVSKY	Vice-President
IAN ANGUS	Vice-President
H. A. DUNLOP	Vice-President and Secretary
H. A. JOHNSTONE	General Sales Manager
K. B. ALEXANDER	Treasurer and Comptroller
W. R. CRAIG	Chief Engineer
S. E. GEORGE	General Superintendent
J. W. HALL	General Agriculturist
J. M. REID	General Purchasing Manager
R. P. CLARK	Personnel & Industrial Relations Manager
R. E. HEWITT	Office Manager, Vancouver
W. R. HETHERINGTON	Vice-President In Charge of Beet Operations
D. W. PURDY	Manager, Canadian Sugar Factories Limited
J. G. SNOW	Agricultural Superintendent, Canadian Sugar Factories Limited
W. A. WILLISON	Manager, The Manitoba Sugar Company Limited
J. S. McDIARMID, Jr.	Secretary, The Manitoba Sugar Company Limited
G. M. GUCCIONE	Agricultural Superintendent, The Manitoba Sugar Company Limited

PRESIDENT'S REPORT

On behalf of the Board of Directors I am pleased to provide shareholders with a résumé of the consolidated operations of the Company and its subsidiaries for the year under review.

For several years the Directors have sought for some way to diversify the activities of the Company. Several possible acquisitions were given careful consideration but turned aside as not being in the long-term interests of our shareholders.

Thus the most important transaction concerning the Company during the year was the acquisition on June 30 of a majority interest in Belkin Packaging Ltd.

Preliminary financing for this purchase was arranged through the Bank of Montreal pending issuance of $9,500,000 at 9½% First Mortgage Bonds. The bond issue was successfully completed in September. This is the first time in the 80-year history of the Company and its subsidiaries that expansion has been financed through the medium of long-term debt.

Proceeds of your Company's investment in Belkin Packaging Ltd. were in turn used by Belkin to purchase the assets of the Burnaby Paperboard division of MacMillan Bloedel. This division is now operating under the name of Belkin Paperboard Ltd.

Belkin Packaging Ltd.

Belkin Packaging Ltd. is a manufacturer and distributor of folding cartons and corrugated containers and has approximately 300 employees.

The activities of the business include package design, packaging systems, the marketing of automatic filling and closing machinery, and other related activities.

Sales offices for the folding carton division are maintained in Vancouver, Calgary, Toronto and Montreal, while sales offices for the corrugated container division are maintained in Vancouver, Penticton and Calgary. Belkin Packaging Ltd. has over 300 regular customers across Canada.

Belkin Paperboard Ltd.

The paperboard mill at Burnaby uses waste paper as its principal source of raw material. The plant, which has a capacity of 170 tons per day, manufactures a range of paperboards and felts.

Since acquisition of the mill, orders have been placed for modern equipment which will enable the plant to increase production to 260 tons per day and also permit the production of a wider range of products.

It is expected that the acquisition of an interest in Belkin Packaging Ltd. will greatly assist B.C. Sugar in playing an increasing role in the continuing development of Western Canada and thus add substantially to the Company's growth potential.

The accounts of Belkin Packaging Ltd. have not been incorporated in the attached statements other than for the Company's share of its profit since June 30 (date of acquisition). This is shown as a separate item in the statement of earnings.

Sugar Operations

At the refinery a new Melt House was completed in January. This is the first step in the refining process and it is a pleasure to report that as a result of careful planning the changeover from the old unit to the new proceeded very smoothly. The new installation has resulted in an overall increased plant capacity.

For many years Rogers' Golden Syrup has been packed in varying sizes of tin containers. This year an attractive, more convenient 2-pound plastic container was introduced that shows the product to advantage and has considerably more sales appeal. The acceptance of this new package is very gratifying as sales of Rogers' Golden Syrup and Rogers' Golden Pancake Syrup are an important part of the Company's operations.

This was the first full year of operations under the International Sugar Agreement, of which Canada is a signatory. So far it appears that the Agreement is functioning reasonably well as world sugar prices have been more stable and slightly higher than for the preceding year. However, world sugar prices are still below the cost of production in most, if not all, sugar exporting countries.

Profits for the year ending September 30, 1970 were somewhat lower than for the preceding year. The somewhat higher sugar prices improved profits from the beet sugar operations, but were of no material benefit to our cane refining business in Vancouver where the steadying influence of the Agreement has made it more difficult to make opportune purchases of raw sugar. In the meantime while the volume of sugar sales reached an all-time high in the history of the Company, costs of materials and labour rose at an even greater pace.

As will be seen from the accompanying accounts, it was found necessary to write off $550,000 of our investment in World

Seeds, Inc. This further reduced profits for the year by about 23 cents per share, and, of course, is a non-recurring item.

As mentioned last year, production from the beet sugar factories in 1968 and 1969 turned out to be larger than anticipated, resulting in excess stocks of sugar, as reflected in the balance sheet. The cost of financing these excess inventories at prevailing high interest rates was an important factor in reducing profits.

In order to reduce these stocks to workable proportions, the acreage under contract in Alberta and Manitoba was reduced for the 1970 crop.

The Company has for some years been valuing its cane sugar inventories on a last-in, first-out basis. The purpose is to provide a reserve to average out operating profits during periods of falling sugar prices. The cumulative effect has been to reduce inventory values below cost or market by $1,228,000, of which total $420,000 was provided from the current year's operations. This represents earnings after tax of 25 cents per share, of which 8 cents applies to the year under review. It should be noted that this basis of valuing inventories is not allowable for tax purposes. The taxes paid on this difference in valuation are shown as Deferred Income Taxes under Current Assets.

During the year the Government of Canada published its White Paper on tax reform. A brief was submitted by your Company to both the Senate and House of Commons Committees. One area of particular concern to the Company was the inference that current depreciation rates might be reduced at some time in the future.

In the past few years the Company has provided the same amount of depreciation as it claimed for tax purposes. This amount since 1965 has approximated the normal maximum allowable under the income tax regulations. For the current year depreciation has been written on the same basis but for tax purposes the Company intends to claim all the additional allowances available to it. It also intends to claim in full the first mortgage bond issue expenses, whereas these will be written off in the accounts of the Company over the life of the bond issue. The Deferred Tax liability in the balance sheet reflects the effect of this policy.

In Alberta, excellent growing weather in 1970 gave promise of another large crop despite a reduction in acreage. However, at the start of the harvest season extremes of both hot and cold temperatures were experienced. In Manitoba, a prolonged wet spring delayed planting and as a result the weather has taken a hand in reducing excess stocks. Beets in that province were harvested under almost ideal conditions. In spite of these difficulties all the factories have been able to increase maximum slice rates and the production of sugar will be sufficient to meet market requirements. Demand for pulp and molasses continues to be strong.

In January, 1970, representatives of the Company appeared before The Tariff Board in Ottawa where a prepared submission was presented.

Briefs were also presented by the Canadian Beet Growers' Association, by the other Canadian refiners, raw cane producers and other interested parties. We have been advised that the recommendations of The Tariff Board may be expected early in 1971.

In past years a meeting of the Board of Directors has been held immediately following the Annual Shareholders' Meeting. At such Directors' Meetings the amount of the customary extra dividend payable in January has been decided.

For various reasons the Annual Shareholders' Meeting is to be held later than usual, therefore, your Directors met on November 24 to consider the extra dividend. An extra dividend of 20 cents per share payable January 29, 1971 to stockholders of record January 8, 1971 was declared.

A. C. LAW

With great regret, we note the passing in May, 1970, of A. C. Law, a Director of the Company since 1946. A well-known Vancouver businessman, Mr. Law's contribution to the progress of the Company was deeply appreciated and will be missed by the members of the Board who had the good fortune to serve with him.

Mr. F. C. Wilkinson was elected to the Board in June, 1970. Mr. Wilkinson is President of Wilkinson Company Ltd. of Vancouver.

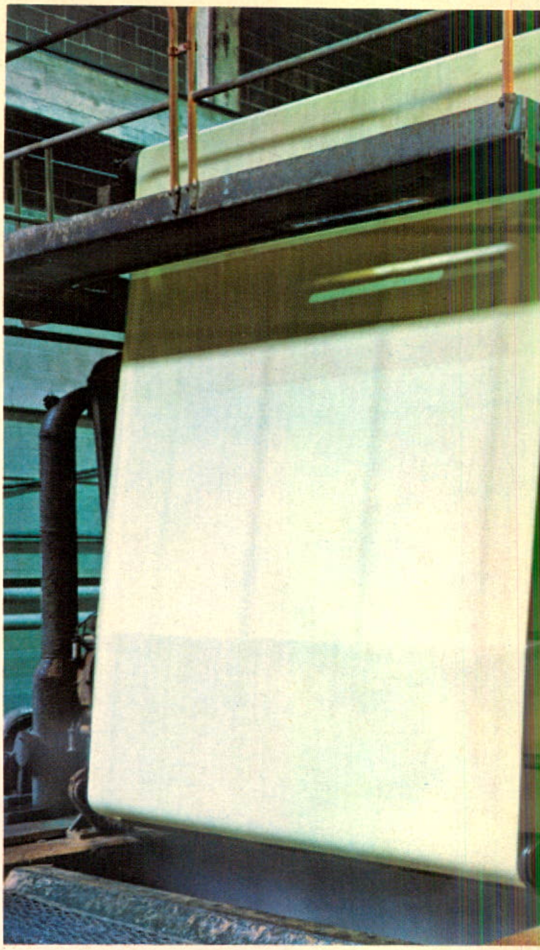
Forrest Rogers

December 7, 1970

President

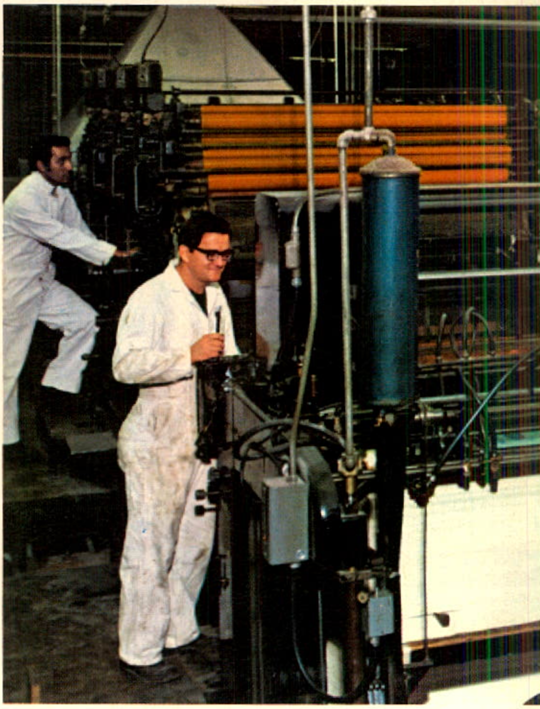
Belkin Paperboard Ltd.

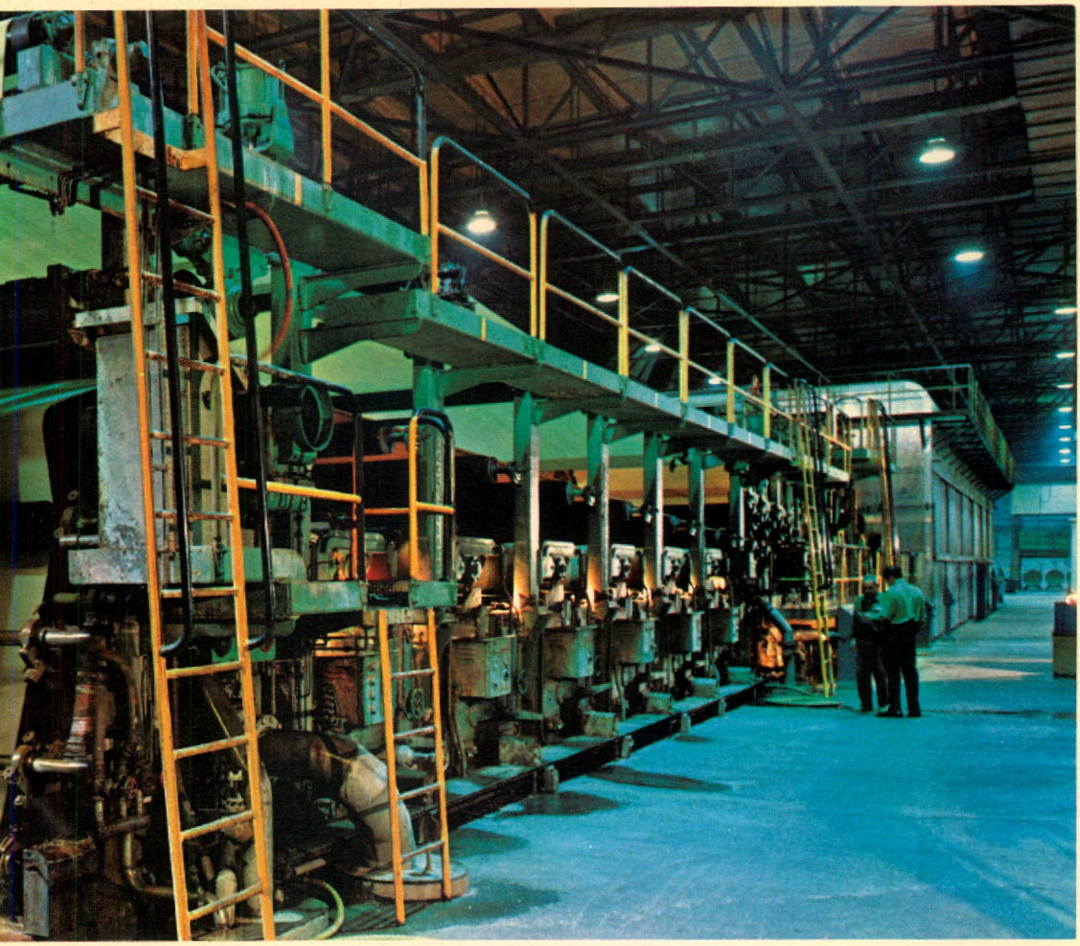
One of the cylinder board machines at the Paperboard Plant.

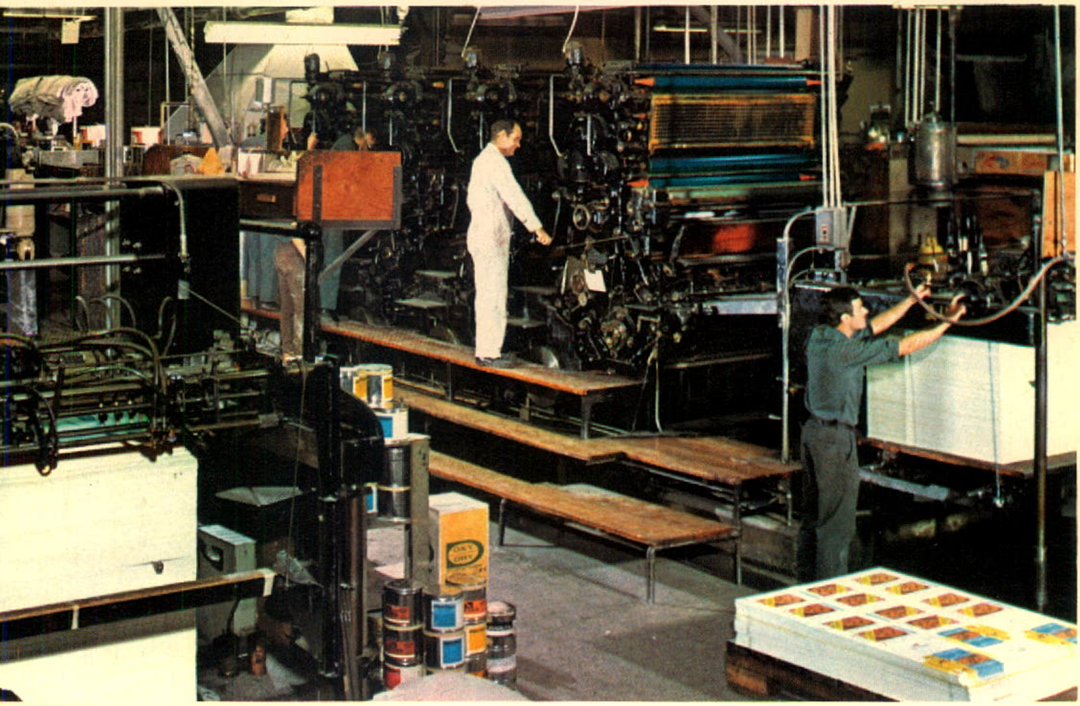


Belkin Packaging Ltd.

Multi-colour lithography presses in the folding carton division at Belkin Packaging Plant.







B C SUGAR REFINERY, LIMITED
AND SUBSIDIARY COMPANIES

FIVE-YEAR HISTORICAL REVIEW

Sales

Earnings before income taxes

Provision for income taxes

*Consolidated net earnings

Preferred share dividend requirements

Net earnings on common stock

* Per common share

Dividends declared on common stock

Per share — regular

— extra from previous year's earnings

Capital expenditures

Provision for depreciation

Working capital

Preferred share redemptions

*includes equity in three-months earnings of partly-owned subsidiary amounting to 4 cents per share and is after providing for an extraordinary charge of 23 cents per share to cover possible loss on investment in World Seeds, Inc.

THE BRITISH COLUMBIA SUGAR REFINING COMPANY, LIMITED

CANADIAN SUGAR FACTORIES LIMITED

THE MANITOBA SUGAR COMPANY LIMITED

BELKIN PACKAGING LTD.

CONSOLIDATED ACCOUNTS FOR THE YEAR ENDING SEPTEMBER 30, 1970

1970	1969	1968	1967	1966
$50,086,000	$45,785,000	$39,970,000	$38,550,000	$36,137,000
7,051,000	7,892,000	6,532,000	6,855,000	4,914,000
3,618,000	4,039,000	3,271,000	3,373,000	2,455,000
2,983,000	3,853,000	3,261,000	3,482,000	2,459,000
182,500	196,250	200,000	297,500	300,000
2,800,500	3,656,750	3,061,000	3,184,500	2,159,000
1.17	1.52	1.28	1.33	.90
.80	.73	.67	.50	.47
.20	.17	.23	.12	.25
1.00	.90	.90	.62	.72
850,000	1,330,000	1,241,000	899,000	663,000
1,207,000	1,232,000	1,212,000	1,230,000	1,245,000
9,153,000	10,762,000	9,146,000	8,984,000	9,601,000
200,000	300,000	—	2,000,000	—

B C SUGAR REFINERY, LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS AND REINVESTED EARNINGS FOR THE YEAR ENDED SEPTEMBER 30, 1970

(WITH COMPARATIVE FIGURES FOR 1969)

	1970	1969
Income		
Sales	$50,086,039	$45,784,890
Investment income (Note 2)	243,538	131,822
	50,329,577	45,916,712
Expenses		
Cost of sales, selling and administrative expenses (Note 3)	41,632,039	36,553,161
Depreciation	1,207,000	1,232,000
Interest on long-term debt (Note 4)	439,884	240,000
	43,278,923	38,025,161
	7,050,654	7,891,551
Income taxes	3,618,000	4,039,000
	3,432,654	3,852,551
Equity in income of partly-owned subsidiary company	100,422	—
Earnings before extraordinary item ($1.40 per common share; 1969 $1.52)	3,533,076	3,852,551
Extraordinary item (Note 7)	550,000	—
Earnings for the year ($1.17 per common share; 1969 $1.52)	2,983,076	3,852,551
Reinvested earnings		
Balance at beginning of year	10,334,743	8,838,442
	13,317,819	12,690,993
Dividends		
Preferred shares	182,500	196,250
Common shares	2,400,000	2,160,000
	2,582,500	2,356,250
Balance at end of year (Note 9)	$10,735,319	$10,334,743

B C SUGAR REFINERY, LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 1970

(WITH COMPARATIVE FIGURES FOR 1969)

	1970	1969 (Reclassified)
Source of Funds		
Current Operations		
Earnings for the year	$ 2,983,076	$3,852,551
Depreciation	1,207,000	1,232,000
Deferred income taxes	254,762	—
	4,444,838	5,084,551
Proceeds of First Mortgage Bonds	9,167,014	—
Disposal of investment in World Seeds, Inc.	—	1,021,159
	13,611,852	6,105,710
Application of Funds		
Acquisition of interest in partly-owned subsidiary company	9,122,928	—
Repayment of term bank loan	3,000,000	—
Investment in fixed assets	850,236	1,329,966
Increase (decrease) in non-current accounts receivable	(534,198)	503,028
Redemption of preferred shares	200,000	300,000
Payment of dividends	2,582,500	2,356,250
	15,221,466	4,489,244
Increase (decrease) in net current assets	$ (1,609,614)	$1,616,466

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CONSOLIDATED BALANCE SHE

(WITH COMPARATIVE

Current Assets	1970	1969 (Reclassified)
Cash and short term deposits	$ 450,000	$ 3,937,689
Accounts receivable	4,748,995	4,928,995
Inventories (Note 6)	10,454,689	7,357,167
Deferred income tax charges (Note 6)	632,000	415,000
Prepaid expenses	236,980	283,330
	16,522,664	16,922,181
Investments and other assets		
Investment in partly-owned subsidiary company (Note 1)	9,122,928	—
Non-current accounts receivable (Note 7)	346,032	880,230
	9,468,960	880,230
Fixed Assets at Cost		
Land	336,628	336,628
Buildings, plant and equipment	39,550,607	38,930,896
	39,887,235	39,267,524
Less accumulated depreciation	30,851,861	29,875,386
	9,035,374	9,392,138
Bond Discount and Expense	332,986	—
	$35,359,984	$27,194,549

Approved on behalf of the Board:

F. Rogers, Director
P. A. Cherniavsky, Director

FINERY, LIMITED

RY COMPANIES

ET AS AT SEPTEMBER 30, 1970

FIGURES FOR 1969)

Current Liabilities	1970	1969
Bank advances	$ 882,594	$ —
Accounts payable	3,573,715	1,943,694
Accrued liability to beet growers	2,389,844	1,894,954
Dividends payable	523,750	526,250
Income taxes payable	—	1,794,908
	7,369,903	6,159,806
Long-Term Debt		
Term bank loan maturing 13 months after fiscal year end	—	3,000,000
First Mortgage Bonds (Note 8)	9,500,000	—
	9,500,000	3,000,000
Deferred Income Taxes (Note 5)	254,762	—

SHAREHOLDERS' EQUITY

Capital		
Authorized		
300,000 Five percent cumulative preferred shares redeemable at par value of $20.00		
6,000,000 Common shares of no par value		
Issued		
175,000 Preferred shares (10,000 redeemed during 1970)	3,500,000	3,700,000
2,400,000 Common shares	4,000,000	4,000,000
Earnings Reinvested in the Business (Note 9)	10,735,319	10,334,743
	18,235,319	18,034,743
	$35,359,984	$27,194,549

B C SUGAR REFINERY, LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

1. The consolidated financial statements include the accounts of all wholly-owned subsidiary companies, namely The British Columbia Sugar Refining Company, Limited, Canadian Sugar Factories Limited and The Manitoba Sugar Company Limited. The earnings of Belkin Packaging Ltd., a partly-owned subsidiary company acquired on June 30, 1970, have been consolidated on the equity basis of accounting, the effect of which is to include in consolidated earnings the parent company's share of the income of the subsidiary earned since acquisition.
   The investment in Belkin Packaging Ltd. comprises:
   (a) the purchase of a $6,500,000 9½% secured debenture for cash at par, repayable at $500,000 per year commencing September 1, 1973 but redeemable at any time,
   (b) the cost of acquiring 750,001 common shares, and,
   (c) the equity in income of the subsidiary earned since acquisition.
   The financial statements at September 30, 1969 have been reclassified to include Deferred Income Tax Charges with current assets to which these charges relate.
2. In 1970 investment income includes interest on the $6,500,000 debenture of Belkin Packaging Ltd. in the amount of $149,268 earned from date of acquisition on June 30, 1970 and a gain of $42,775 (1969 - $33,600) on redemption of preferred shares purchased on the open market.
3. Administrative expenses include remuneration of $379,335 (1969 - $374,196) received by directors in their capacity as directors and officers of the Company.
4. Interest on long-term debt includes:
   (a) interest on term bank loan repaid during the year,
   (b) interest on interim financing prior to the issuing of first mortgage bonds,
   (c) accrued interest on first mortgage bonds.
5. The effect of claiming depreciation and bond issue expenses for tax purposes in excess of the amounts provided in the accounts has been to reduce income taxes otherwise payable by $254,762 which appears on the balance sheet as "Deferred Income Taxes".
6. Inventories other than raw and refined cane sugar have been valued at the lower of average cost and replacement. In valuing inventories of cane sugar the Company has followed the practice of using the lower of replacement cost and cost on a LIFO (last-in, first-out) basis in respect of normal quantities.

The Company's method of calculating cost of cane sugar on hand is not currently allowable for income tax purposes and the taxes amounting to $217,000 in 1970 (1969 - $415,000) applicable to the resulting excess of taxable income over reported income are included with current assets as "Deferred Income Tax Charges".

7. Non-current accounts receivable include $649,731 receivable from World Seeds, Inc. less a provision of $550,000 for possible loss on collection of this account.
8. In 1970 a subsidiary, The British Columbia Sugar Refining Company, Limited issued $9,500,000 principal amount of 9½% First Mortgage Sinking Fund Bonds Series A maturing in 1987 for $9,262,500. Annual sinking fund payments are required as follows:

1973 to 1986 inclusive	$635,000
1987	610,000

The bonds are not redeemable until after September 15, 1980.

9. Reinvested earnings include capital surplus of $2,500,000 at September 30, 1970 ($2,300,000 at September 30, 1969) appropriated on the redemption of preferred shares.

AUDITORS' REPORT
TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of B C Sugar Refinery, Limited and its subsidiaries at September 30, 1970 and the consolidated statements of earnings and reinvested earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

Vancouver, B.C.
November 20, 1970