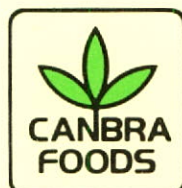


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Annual Report 1984

HOWARD ROSS LIBRARY
OF MANAGEMENT
APR 15 1985
MCGILL UNIVERSITY



Canbra Foods' Mission

is to be an excellent, fully integrated oilseed processing and food company.

We will seek to optimize the financial, product and human resources of the company by . . .

People

. . . Providing an environment for all employees which encourages meaningful opportunities for participation, individuality, respect and self-esteem.

Product

. . . Fulfilling customer needs with quality products and services.

Profit

. . . Investing in the future of the Company while achieving a superior return on our shareholders' investment.

We recognize our responsibility to society and we will enhance our role as a corporate citizen through our continuing commitment to excellence.

President's Message

Canbra Foods' net earnings for 1984 were \$794,139 or 29¢ per share compared to 1983 earnings of \$3,203,369 or \$1.16 per share. All Federal and Provincial Government Operating Assistance available to the canola crushing industry was discontinued by the end of the first quarter of 1984. Operating assistance, net of income taxes, totalled \$451,000 in 1984 compared with \$2,381,000 a year earlier.

Sales in 1984 reached a record high of \$136,564,411 with matching high plant throughput. However, shortages of canola seed for both export and domestic crushing caused record high prices for our raw material without corresponding increases for our products of meal and oil, resulting in our disappointing earnings. Last year sales were \$110,764,996.

Canbra Foods is financially very strong with no debt other than our regular accounts payable for seed and other operating expenses. This means that we had no interest expense which enabled us to be very competitive when making sales.

Shareholders' equity increased by \$794,139 to \$35,056,214 or \$12.73 per share. Working capital decreased \$1,219,486 to \$18,477,578 as a result of spending \$4,045,409 on new equipment to modernize and expand our plants.

A major project completed during 1984 was the renovation of our Prince Albert seed cleaning plant. The old seed cleaning plant was torn down to make room for a new compact steel building with high-speed equipment which is capable of cleaning 760 tonnes of canola per day. The Prince Albert plant allows us to buy and clean canola for the export market and provide a back-up supply of seed during periods of shortage in Southern Alberta.

1984 was a mixed year for Canbra's subsidiary company, Stafford Foods Limited. Their food service division was ahead of last

year's performance, while the retail division was in decline. In November of 1984 the retail division of Stafford Foods was sold in order to allow them to concentrate their resources on the growing food service industry. The food service division of Stafford Foods continued to make progress; improving the volume on most of their key products; particularly soup, coffee and diet products.

After several years of gathering scientific data, the Research Branch of Agriculture Canada petitioned the United States Food and Drug Administration to have canola oil approved for human consumption in the United States. The petition was published on August 13, 1982. On February 13, 1984 Paul Robinson, the United States Ambassador to Canada, announced that canola oil was to be granted that approval. Finally, on January 24, 1985, the United States Food and Drug Administration affirmed as generally recognized as safe (GRAS); low erucic acid rapeseed oil. Since the process of obtaining GRAS status commenced, our industry has successfully developed the use of the name "canola" to recognize the nutritionally superior varieties of rapeseed that have been developed. The necessary steps must now be taken, as they were in Canada, to change United States labelling requirements to allow the use of the name "canola". Marketing studies indicate that, especially with the strong U.S. dollar, Canbra Foods should be able to market railway tankcar quantities of canola oil to customers in the Pacific Northwest area of the United States. Eventually we would expect to market our packaged products into the same area. GRAS status will also encourage other countries that pattern their food import laws on those of the United States to make possible the entry of edible canola oil into their countries.

Our most recent estimate of the production and disposition of the 1984/85 canola crop (in 000's tonnes) is as follows:

	Forecast 1984/85	Actual 1983/84
Stocks, beginning of crop year	116	478
Production	3,246	2,632
Total available	3,362	3,110
Exports	1,350	1,497
Domestic crush	1,170	1,196
Other dispositions: Loss/seed/ feed/dockage	324	301
	2,844	2,994
Stocks, end of crop year	518	116

Projected stocks at July 31, 1985, which is the end of the crop year, indicate that there should be sufficient supplies of seed for export and domestic crush requirements until the new crop is harvested commencing in late August. Early projections are that there will be the same acreage seeded to canola this spring which, combined with good weather, should provide sufficient supplies of seed through to the summer of 1986.

During 1984 our employees developed a Mission Statement to define Canbra Foods' philosophy. By continually seeking to optimize the financial, product and human resources of the Company, we will enhance our efforts to make Canbra Foods an excellent company.

On behalf of the Board of Directors I would like to express thanks to our loyal customers, growers, suppliers and especially to our employees, for their contribution during a very difficult year.

March 8, 1985
Lethbridge, Alberta

D. W. Hughes,
President

Financial Highlights

	Year Ended December 27 1984	Year Ended December 29 1983	Year Ended December 30 1982	Year Ended December 31 1981	Year Ended January 1 1981
Sales	\$136,564,411	\$110,764,996	103,255,426	122,222,086	115,538,976
Earnings before taxes and extraordinary item	617,259	4,870,424	3,501,682	9,447,034	9,318,420
Taxes on income	(176,880)	1,667,055	1,059,202	3,622,599	3,796,492
Earnings before extraordinary item	794,139	3,203,369	2,442,480	5,824,435	5,521,928
Extraordinary item	—	—	—	—	325,000
Net earnings	794,139	3,203,369	2,442,480	5,824,435	5,846,928
Net earnings per share	\$.29	\$1.16	\$.89	\$2.12	\$2.12
Funds provided from operations	1,919,108	4,898,346	3,922,051	7,400,786	6,988,935
Funds provided from operations, per share	\$.70	\$1.78	\$1.42	\$2.69	\$2.54
Working capital	18,477,578	19,697,064	18,189,151	16,844,293	13,470,224
Working capital ratio	1.7 to 1	2.0 to 1	2.0 to 1	1.7 to 1	1.5 to 1
Shareholders' equity	35,056,214	34,262,075	31,058,706	28,616,226	22,791,791
Plant additions	4,045,409	3,233,283	2,643,213	4,031,133	2,811,210
Dividends on common shares	—	—	—	—	550,696
Dividends per common share	—	—	—	—	20¢

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Canbra Foods Ltd. as at December 27, 1984 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 27, 1984 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.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Calgary, Canada
January 31, 1985

Consolidated Statement of Earnings

Year ended December 27, 1984 (with comparative figures for the year ended December 29, 1983)

	<u>1984</u>	<u>1983</u>
Sales	\$136,564,411	110,764,996
Cost of sales	120,794,141	92,564,622
Selling expenses	10,821,307	9,609,680
Administrative and general expenses	4,331,704	3,720,270
	<u>135,947,152</u>	<u>105,894,572</u>
Earnings before income taxes	617,259	4,870,424
Income taxes (Note 7):		
Current (recovery)	(716,019)	1,348,363
Deferred	539,139	318,692
	<u>(176,880)</u>	<u>1,667,055</u>
Net earnings	<u>\$ 794,139</u>	<u>3,203,369</u>
Net earnings per share	<u>\$.29</u>	<u>1.16</u>

See accompanying notes.

Consolidated Balance Sheet

December 27, 1984 (with comparative figures as at December 29, 1983)

Assets

	1984	1983
Current assets:		
Accounts receivable	\$ 9,147,458	9,051,293
Due from parent (Note 2)	12,063,754	9,260,459
Income taxes recoverable	1,629,145	—
Inventories (Note 3)	20,938,841	20,958,375
Margin accounts on hedging operations	739,613	605,863
Other	132,730	121,422
Total current assets	<u>44,651,541</u>	<u>39,997,412</u>
Fixed assets (Note 4)	20,299,042	17,727,591
Goodwill	193,844	193,844
Other	487,406	506,093
	<u>\$ 65,631,833</u>	<u>58,424,940</u>

Liabilities

	1984	1983
Current liabilities:		
Outstanding cheques, less cash on deposit	\$ 1,285,063	2,142,989
Accounts payable and accrued liabilities	24,888,900	17,649,204
Income taxes payable	—	508,155
Total current liabilities	<u>26,173,963</u>	<u>20,300,348</u>
Deferred income taxes	4,401,656	3,862,517
Shareholders' equity:		
Share capital:		
Authorized: 1,000,000 shares without nominal or par value designated as preference shares; 6,000,000 common shares without nominal or par value		
Issued: 2,753,481 common shares	4,168,819	4,168,819
Retained earnings	<u>30,887,395</u>	<u>30,093,256</u>
	<u>35,056,214</u>	<u>34,262,075</u>
Commitments (Note 5)		
	<u>\$ 65,631,833</u>	<u>58,424,940</u>

See accompanying notes.

On behalf of the Board:

D.W. Hughes, Director
R.A. Simmons, Director

Consolidated Statement of Retained Earnings

Year ended December 27, 1984 (with comparative figures for the year ended December 29, 1983)

	<u>1984</u>	<u>1983</u>
Balance, beginning of year	\$ 30,093,256	26,889,887
Net earnings	<u>794,139</u>	<u>3,203,369</u>
Balance, end of year	<u>\$ 30,887,395</u>	<u>30,093,256</u>

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Year ended December 27, 1984 (with comparative figures for the year ended December 29, 1983)

	<u>1984</u>	<u>1983</u>
Source of funds:		
Funds provided from operations	\$ 1,919,108	4,898,346
Proceeds from sale of assets	<u>906,815</u>	<u>23,249</u>
	<u>2,825,923</u>	<u>4,921,595</u>
Application of funds:		
Purchase of fixed assets	4,045,409	3,233,283
Increase in investments	<u>—</u>	<u>180,399</u>
	<u>4,045,409</u>	<u>3,413,682</u>
Increase (decrease) in working capital	(1,219,486)	1,507,913
Working capital, beginning of year	<u>19,697,064</u>	<u>18,189,151</u>
Working capital, end of year	<u>\$ 18,477,578</u>	<u>19,697,064</u>

See accompanying notes.

Notes to Consolidated Financial Statements

December 27, 1984

The Company was incorporated under the Companies Act of Alberta and has been continued under the Business Corporations Act of Alberta. It is in the business of processing and distributing food products.

1. Summary of significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of Canbra Foods Ltd. and its wholly-owned subsidiary, Stafford Foods Limited. All significant intercompany loans and transactions have been eliminated on consolidation.

(b) Inventories:

Inventories are valued at average cost or net realizable value, whichever is lower.

(c) Fixed assets:

Land, buildings and equipment are carried at cost. Depreciation of buildings and equipment is provided on a straight-line basis over their estimated useful lives as follows:

Buildings	3%
Plant equipment	7%
Office equipment	10%
Automotive equipment	20%
Other	4%

Maintenance and repairs are charged to income as incurred.

(d) Income taxes:

The Company accounts for investment tax credit using the flowthrough method whereby the credit claimed for tax purposes is a reduction in the current income tax provision.

2. Related party transactions:

	1984	1983
Interest on balances with Parent has been calculated at the bank prime rate		
Income (net) included in sales	\$ 440,235	590,356
Sales to affiliates	5,906,425	4,821,894
Purchases from affiliates	1,621,037	1,546,418

3. Inventories:

	1984	1983
Raw materials	\$ 11,285,769	11,460,785
Finished products	7,028,562	6,614,376
Supplies	2,624,510	2,883,214
	<u>\$ 20,938,841</u>	<u>20,958,375</u>

4. Fixed assets:

	1984	1983
Buildings	\$ 8,701,879	7,901,613
Plant, office and other equipment	23,456,027	20,342,753
	<u>32,157,906</u>	<u>28,244,366</u>
Less accumulated depreciation	12,484,616	11,142,527
	<u>19,673,290</u>	<u>17,101,839</u>
Land	625,752	625,752
	<u>\$ 20,299,042</u>	<u>17,727,591</u>

5. Commitments:

The Company has entered into contracts for the growing of oilseed crops. On the basis of information now available, taking into account the uncertainty regarding crop yields and market prices, the Company's commitments for the purchase of these crops are estimated to be approximately \$7,013,966. No provision with respect to these commitments has been included in the accompanying financial statements.

Pursuant to certain seed contracts entered into with growers, growers were given the option to price deliveries made by December 27, 1984 at any time up to January 31, 1985 for deliveries relating to the 1983-84 crop year and up to July 31, 1985 for deliveries relating to the 1984-85 crop year. At December 27, 1984 certain deliveries had been received but not priced. The Company has estimated and recorded the

amount of its liability in respect of these deliveries giving effect to the market price of the seed at the time of delivery together with subsequent price changes. In addition, the Company has taken such steps which, in the opinion of management, are necessary to preserve its position with respect to raw material and finished product commodity commitments.

The Company has future operating lease commitments as follows:

1985—\$1,388,950
1986—\$1,271,333
1987—\$ 921,695
1988—\$ 396,157
1989—\$ 319,654

6. Included in the consolidated statement of earnings are the following:

	<u>1984</u>	<u>1983</u>
Depreciation	\$ 1,414,446	1,365,563
Remuneration of directors and senior officers. During the year there were 9 directors and 7 officers, 4 of whom served in both capacities.	\$ 761,413	725,290

7. Income taxes:

The income tax provision (recovery) is made up as follows:

	<u>1984</u>	<u>1983</u>
Provision for income taxes at 47.5%	\$ 293,000	2,313,000
Increase (decrease) in taxes resulting from:		
Manufacturing and processing profit deduction	41,000	(170,000)
Inventory allowance	(298,000)	(250,000)
Investment tax credit	(208,000)	(211,000)
Other	(5,000)	(15,000)
Actual provision for (recovery of) income taxes	<u>\$ (177,000)</u>	<u>1,667,000</u>

8. Government assistance programs:

The Company has received Federal and Provincial Government assistance that has been available to the canola crushing industry under various programs, net of income taxes, in the amount of \$451,000 for the year ended December 27, 1984 (1983-\$2,381,000). All forms of federal and provincial government operating assistance had been discontinued by the end of the first quarter of 1984.



Directors:

A.J.E. Child
M.C. Herbst
J.D. Hockin
D.W. Hughes
R.A. Jackson
G.A. McIntyre
H.H. Michael
R.A. Simmons
P.E. Soulier

Officers and Management:

A.J.E. Child - Chairman of the Board
D.W. Hughes - President and Chief Executive Officer
G.A. McIntyre - Vice-President, Marketing and Sales
R.A. Simmons - Vice-President, Grain Division
A.R. Hunt - Secretary-Treasurer
C.L. Kelln - Controller

Registrar and Transfer Agent:

The Canada Trust Company - Calgary and Toronto

Solicitors:

Virtue & Co. - Lethbridge
Bennett Jones - Calgary

Bankers:

Bank of Montreal

Auditors:

Peat, Marwick, Mitchell & Co.

Share Listing:

Toronto Stock Exchange - ticker abbreviation CBF

Subsidiary Company:

Stafford Foods Limited, Toronto, Ontario - J.D. Hockin, President



P. O. Box 99
Lethbridge, Alberta
Canada T1J 3Y4
Telephone: 403 327-5781
Telex: 038-49145