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CANBRA FOODS

Annual Report 1985

Canbra Foods Ltd. was founded in 1957 as a public company and its shares are listed on the Toronto Stock Exchange. Approximately 71% of the 2.8 million common shares outstanding are owned by Burns Foods Limited. Canbra has a wholly-owned subsidiary, Stafford Foods Limited, which is a manufacturer and national distributor of a broad range of food products for the foodservice industry.

Canbra is one of Canada's foremost fully-integrated companies engaged in the edible oil industry. Its crushing plant's function is to separate canola into vegetable oil and protein meal for sale in both domestic and export markets. The high protein meal is used in livestock feed supplements and is sold to feed formulators. In our refinery we process canola oil (supplied from our crushing plant); as well as other oils such as palm, cotton, soybean, and sunflower; and animal fats such as lard and tallow into high quality salad and cooking oils, margarine or shortening basestocks. These products are sold in tank-truck or railway tank-car quantities to end-user manufacturers, or transferred to our own packaging plant whose products are sold to food retailers or to the foodservice industry. Packaged products are sold under the private labels of major companies as well as Canbra's own brands.

Canbra has a seed cleaning plant at Prince Albert, Saskatchewan which can supply canola to our Lethbridge crushing plant or ship cleaned canola to the export market.

President's Message

The canola processing industry in western Canada completed another very difficult year and Canbra Foods experienced its share of the difficulties.

Canbra Foods lost $1,502,032 or 55¢ per share during 1985 on sales of $122,255,405. This compares to a 1984 profit of $794,139 or 29¢ per share on sales of $136,564,411.

Throughout the year we experienced long periods of negative margins from crushing canola as the prices we received from our vegetable oil products and protein meal for animal feeds did not cover all the costs of acquiring and processing the seed.

The situation improved during the fourth quarter as we took advantage of discounted prices from other canola crushers to purchase substantial quantities of canola oil for use in our edible oil refinery and packaged products manufacturing.

Canbra Foods' sales were lower in 1985 for two reasons. Oil and meal selling prices declined and we reduced the level of our operations whenever we experienced periods of negative crush margins.

Working capital decreased $2,501,331 to $15, 976,247 with the purchase of $2,324,231 of new equipment as we continue to modernize our plant. Shareholders' equity decreased to $33,554,182 or $12.18 per share as a result of the year's loss.

In November of 1985 a Task Force on the future of the canola crushing industry in western Canada was commissioned which included representatives from the canola crushers, government and growers. The Task Force has completed its study and has concluded that under current market conditions the western Canada canola crushing industry is competitive, but not viable unless it is restructured. The Chairman of the Task Force stated that the industry has excess capacity in relation to domestic demand and established world markets for both vegetable oil and meal. Products must be sold into a highly cyclical market and other oilseed producing countries have developed strong support systems and provide large subsidies to oilseed processing industries to maintain their share of world markets. A number of countries have high tariff barriers making it difficult to penetrate these markets. The Chairman stated that there is a need to rationalize the industry, to improve the effectiveness with which products are marketed on a world wide basis and at the same time to maintain a competitive industry that will serve canola producers in western Canada. In the long run, some improvements in economic outlook are likely. These include improved yield of seed as new hybrids are introduced and further development of western United States markets for both oil and meal.

Although Canbra Foods did not have a member on the Task Force, we actively contributed to the study and agree with its conclusions.

In last year's annual report I mentioned that the United States Food and Drug Administration affirmed as "generally recognized as safe" low erucic acid rapeseed oil. Since that date our industry, through the Canola Council of Canada and the Research Branch of Agriculture Canada, have worked toward changing the United States' labelling requirements to allow the use of the name "canola".

Access to western United States markets is important to the future growth of Canbra Foods. Marketing of our canola meal into the area of the northwestern United States has been successful. If, and when, we achieve use of the name "canola oil" on our labels, we feel marketing of many of our oil products will also be successful.

As farmers and canola processors know all too well, growing conditions change from one year to the next. No one year is the same as the previous year and last year was no exception. In the spring crops got off to a very good start, but as the season progressed drought across the south reduced yields to less than 50% of normal. Then the rains came in late August and September causing numerous delays in harvest and loss of quality. Despite the weather problems, Statistics Canada estimated 3,462,800 tonnes of canola was harvested last fall providing ample supplies for export and domestic crushers.
We estimate a carryover of canola at July 31, 1986, which is the end of the current crop year, of over 1,000,000 tonnes which will be the third largest in the past ten years.

Despite ample supplies of raw materials and the possibility of lower canola prices, we will likely be faced with low oil and meal prices as well during 1986 as there are ample supplies in Canada and all other producing countries in the world.

Stafford Foods' results for 1985 were also a disappointment. Profit before tax was $635,000 for the year, which is down considerably from prior years. One reason for the reduced profit is related to a significant decline in plant activity which caused unfavorable manufacturing variances. Secondly, there was a disruption in their coffee business as the major coffee supplier withdrew an exclusive distribution agreement; resulting in a considerable loss of sales momentum. A decrease in seasonal frozen fruit sales further contributed to the profit decline.

Stafford Foods' sales in 1985 were off mainly due to the absence of the grocery division which was sold in November 1984. The foodservice division experienced a difficult year as a result of the coffee disruption noted above. Stafford moved to establish its own coffee brand to ensure that a similar disruption would not occur in future. At the present time, overall coffee volumes are running 25% ahead of year ago with over 80% of that volume accounted for by their own brand name "Mello Gold."

After over 27 years of employment with Canbra Foods, Mr. R. A. Simmons will retire as a Vice-President and Director at the end of May 1986. We wish Mr. Simmons a well-deserved, long and healthy retirement.

On behalf of the Board of Directors I would like to express thanks to our employees, customers, suppliers and canola growers for their support.

Continued commitment to excellence by everyone at Canbra Foods will be needed if 1986's results are to improve over those of 1985.

February 19, 1986
Lethbridge, Alberta

D. W. Hughes,
President

Financial Highlights

	Year Ended December 26 1985	Year Ended December 27 1984	Year Ended December 29 1983	Year Ended December 30 1982	Year Ended December 31 1981
Sales	**$122,255,405**	136,564,411	110,764,996	103,255,426	122,222,086
Earnings (loss) before income taxes	**(2,579,417)**	617,259	4,870,424	3,501,682	9,447,034
Income taxes (recovery)	**(1,077,385)**	(176,880)	1,667,055	1,059,202	3,622,599
Net earnings (loss)	**(1,502,032)**	794,139	3,203,369	2,442,480	5,824,435
Net earnings (loss) per share	**$(.55)**	$ .29	$1.16	$.89	$2.12
Funds provided from (required for) operations	**(203,779)**	1,919,108	4,898,346	3,922,051	7,400,786
Funds provided from (required for) operations, per share	**$(.07)**	$ .70	$1.78	$1.42	$2.69
Working capital	**15,976,247**	18,477,578	19,697,064	18,189,151	16,844,293
Working capital ratio	**1.7 to 1**	1.7 to 1	2.0 to 1	2.0 to 1	1.7 to 1
Shareholders' equity	**33,554,182**	35,056,214	34,262,075	31,058,706	28,616,226
Plant additions	**2,324,231**	4,045,409	3,233,283	2,643,213	4,031,133

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Canbra Foods Ltd. as at December 26, 1985 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 26, 1985 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, except for the change in method of accounting for investment tax credits as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Calgary, Canada
January 29, 1986

Consolidated Balance Sheet

December 26, 1985 *(with comparative figures as at December 27, 1984)*

Assets

	1985	1984
Current assets:		
Accounts receivable	$ 8,284,087	9,147,458
Due from parent (Note 3)	7,524,042	12,063,754
Income taxes recoverable	1,905,818	1,629,145
Inventories (Note 4)	20,701,717	20,938,841
Margin accounts on hedging operations	750,610	739,613
Other	190,376	132,730
Total current assets	39,356,650	44,651,541
Fixed assets (Note 5)	21,016,079	20,299,042
Goodwill	193,844	193,844
Other	489,492	487,406
	$ 61,056,065	65,631,833

Liabilities

	1985	1984
Current liabilities:		
Outstanding cheques, less cash on deposit	$ 3,015,486	1,285,063
Accounts payable and accrued liabilities	20,364,917	24,888,900
Total current liabilities	23,380,403	26,173,963
Deferred income taxes	4,121,480	4,401,656
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	29,385,363	30,887,395
	33,554,182	35,056,214
Commitments (Note 6)		
	$ 61,056,065	65,631,833

See accompanying notes.

On behalf of the Board:

D. W. Hughes, Director

R. A. Simmons, Director

Consolidated Statement of Earnings

Year ended December 26, 1985 *(with comparative figures for the year ended December 27, 1984)*

	1985	1984
Sales	**$122,255,405**	136,564,411
Cost of sales	**110,478,720**	120,794,141
Selling expenses	**9,786,913**	10,821,307
Administrative and general expenses	**4,569,189**	4,331,704
	124,834,822	135,947,152
Earnings (loss) before income taxes	**(2,579,417)**	617,259
Income taxes (Note 8):		
Current (recovery)	**(797,209)**	(716,019)
Deferred (recovery)	**(280,176)**	539,139
	(1,077,385)	(176,880)
Net earnings (loss)	**$ (1,502,032)**	794,139
Net earnings (loss) per share	**$ (.55)**	.29

See accompanying notes.

Consolidated Statement of Retained Earnings

Year ended December 26, 1985 *(with comparative figures for the year ended December 27, 1984)*

	1985	1984
Balance, beginning of year	**$ 30,887,395**	30,093,256
Net earnings (loss)	**(1,502,032)**	794,139
Balance, end of year	**$29,385,363**	30,887,395

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Year ended December 26, 1985 *(with comparative figures for the year ended December 27, 1984)*

	1985	1984
Source of funds:		
Proceeds from sale of assets	**$ 26,679**	906,815
Application of funds:		
Funds required for (provided from) operations	**203,779**	(1,919,108)
Purchase of fixed assets	**2,324,231**	4,045,409
	2,528,010	2,126,301
Increase (decrease) in working capital	**(2,501,331)**	(1,219,486)
Working capital, beginning of year	**18,477,578**	19,697,064
Working capital, end of year	**$15,976,247**	18,477,578

See accompanying notes.

Notes to Consolidated Financial Statements

December 26, 1985

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.

2. Change in accounting policy:
The Company has changed its method of accounting for investment tax credits in accordance with a recommendation of the Canadian Institute of Chartered Accountants, on a prospective basis, whereby investment tax credits are accounted for as a reduction of the expenditures to which they relate. Had the Company not changed its policy, the net loss for 1985 would have decreased by $152,000 ($.06 per share).

3. Related party transactions:

	1985	1984
Interest on balances with Parent has been calculated at the bank prime rate.		
Income (net) included in sales	$ **597,638**	440,235
Sales to affiliates	**4,703,142**	5,906,425
Purchases from affiliates	**1,699,704**	1,621,037

4. Inventories:

	1985	1984
Raw materials	$ **12,642,294**	11,285,769
Finished products	**5,929,257**	7,028,562
Supplies	**2,130,166**	2,624,510
	$ **20,701,717**	20,938,841

5. Fixed assets:

	1985	1984
Buildings	$ 9,530,298	8,701,879
Plant, office and other equipment	24,825,206	23,456,027
	34,355,504	32,157,906
Less accumulated depreciation	13,965,177	12,484,616
	20,390,327	19,673,290
Land	625,752	625,752
	$ 21,016,079	20,299,042

6. 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 $7,337,000. 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 July 31, 1985 at any time up to January 31, 1986 for deliveries relating to the 1984-85 crop year and up to July 31, 1986 for deliveries relating to the 1985-86 crop year. At December 26, 1985 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:

1986—$1,310,700
1987—$ 918,612
1988—$ 466,175
1989—$ 355,592
1990—$ 274,610

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

	1985	1984
Depreciation	$ 1,579,953	1,414,446
Remuneration of directors and senior officers. During the year there were 9 directors and 6 officers, (1984 - 9 directors and 7 officers) 4 of whom served in both capacities.	$ 619,491	761,413

8. Income taxes:

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

	1985	1984
Provision for income taxes at 47.9%	$(1,236,000)	293,000
Increase (decrease) in taxes resulting from:		
Manufacturing and processing profit deduction	139,000	41,000
Inventory allowance	(302,000)	(298,000)
Investment tax credit	178,000	(208,000)
Other	144,000	(5,000)
Actual provision for (recovery of) income taxes	$(1,077,000)	(177,000)

At December 26, 1985 the Company has unclaimed investment tax credits of $306,000 which can be used to reduce future income taxes.

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
S. J. Campbell .... Vice-President, Grain Division
L. T. Macdonald .... Vice-President, Purchasing, Production Planning and Distribution
G. A. McIntyre .... Vice-President, Marketing and Sales
J. E. Roosendaal .... Vice-President, Operations
R. A. Simmons .... Vice-President
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

CANBRA FOODS

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