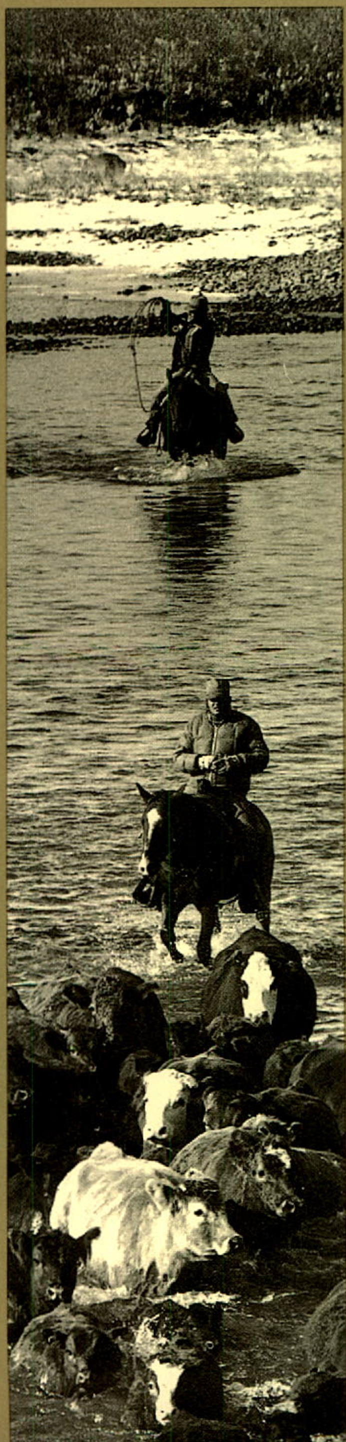
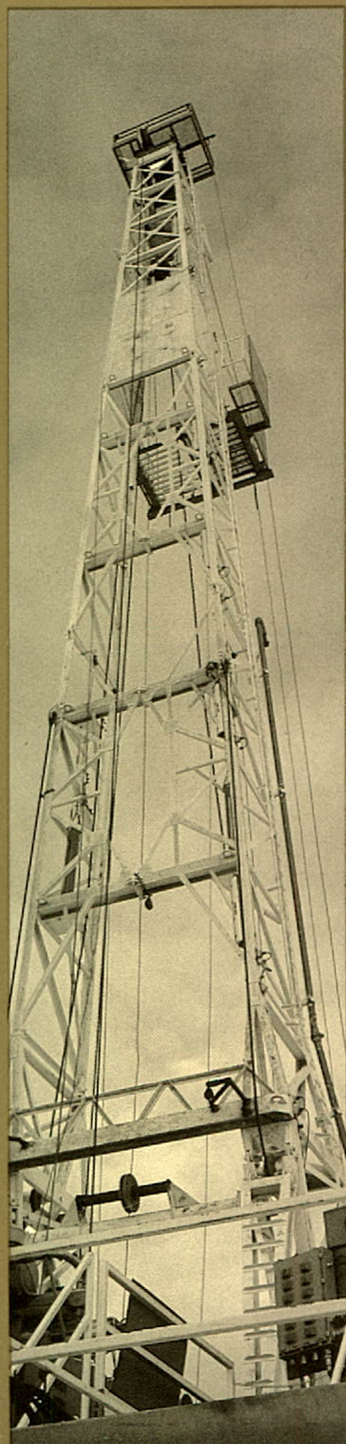
 

L.K. Resources Ltd.
1983 Annual Report

Corporate Profile

LK Resources (LKR) is a Canadian corporation with diversified interests in agriculture and energy. The Agribusiness division has farm and ranch lands stretching through southern Alberta where it operates an intensive cow-calf breeding operation as well as integrated feed mill and feedlot facilities. Cattle from these and other sources are processed at one of LKR's three beef processing facilities with processed beef being sold across Canada. The energy division includes two geophysical operations based in Canada and the United States. LK Oil and Gas Ltd. has exploration and producing oil and gas properties in the prospective hydrocarbon areas of western Canada.

Shares of LK Resources Ltd. trade on the Alberta and Toronto Stock Exchanges under the symbol LKR.

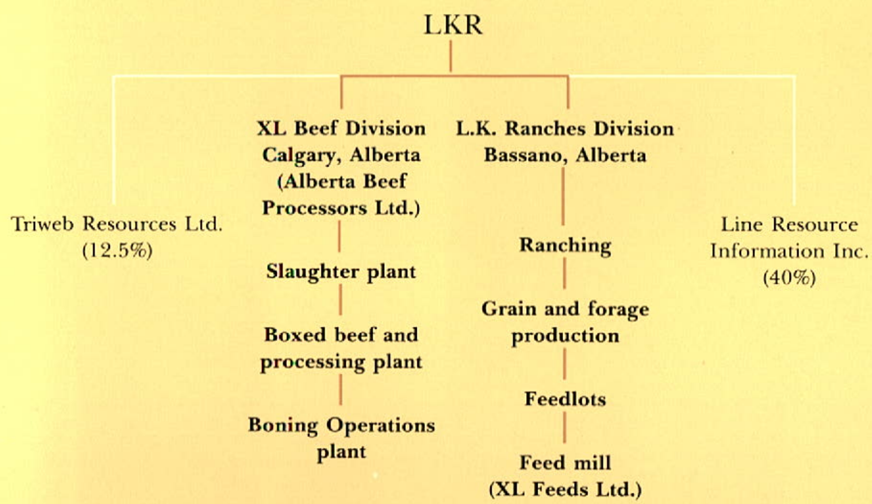
Annual Meeting

The Annual Meeting of the Shareholders of LK Resources Ltd. will be held at 3 p.m. on March 26, 1984 in the Willow Park Room of the Hospitality Inn South, 138 Southland Drive, S.E., Calgary, Alberta.

Corporate Profile

L.K. Resources Ltd., (LKR) is a Canadian corporation with diversified agribusiness investments. The Company has farm and ranch lands stretching through southern Alberta where it operates a cow-calf breeding operation as well as integrated feed mill and feedlot facilities. Cattle from these and other sources are processed at one of LKR's three beef processing facilities. The processed beef is sold across Canada.

Shares of L.K. Resources Ltd. trade on the Alberta and Toronto Stock Exchanges under the symbol "LKR".



Annual Meeting

The Annual Meeting of the Shareholders of L.K. Resources Ltd. will be held at 3 p.m. on March 12, 1985 in the Willow Park Room of the Hospitality Inn South, 138 Southland Drive, S.E., Calgary, Alberta.

Financial Highlights

(Thousands of dollars except per share amounts)

	1984	1983	1982	1981	1980
Gross revenue	**229,538**	153,498	194,805	167,260	146,880
Total assets	**69,084**	68,027	79,321	74,743	49,246
Net income (loss)	**480**	(5,094)	(1,745)	2,229	2,610
Net income (loss) per share*	**.06**	(1.08)	(.42)	.42	.54
Working capital (deficiency) at year end	**3,808**	(3,286)	(210)	4,831	7,220
Capital expenditures	**1,806**	2,030	8,195	12,081	2,022
Common shareholders' equity	**13,347**	12,867	18,037	20,102	17,738
Common shareholders' equity per share*	**2.66**	2.57	3.63	4.05	3.59

*Including Class A Special and Class B Non-Voting shares

Report to Shareholders

What a difference a year makes! It is my pleasure to report that most of our plans to re-organize and restructure the Company, as outlined one year ago have been accomplished with the desired result – a return to profitability.

The various steps in the reorganization have been reported to you in quarterly reports. In summary, they involve the disposition of certain operations which have been dependent on L.K. Resources Ltd. (LKR) as a source of financing. The oil and gas operations and geophysical operations have been spun off into separate companies, Triweb Resources Ltd. and Line Resource Information Inc., with LKR maintaining an equity interest in each entity. Cee-Der Log Buildings division has become a totally independent and unrelated operation.

The restructuring means that your Company is no longer a mini-conglomerate, but a totally integrated beef production operation with passive investments in oil and gas and seismic contracting. There is every reason to believe that our passive investments will grow in value and generate income for the parent. Triweb Resources has an aggressive drilling program underway with indications of major success, while Line Resource Information Inc. (formerly Beaver Geophysical Services) is fast gaining a reputation as a leader in the geophysical industry.

The net result of efforts made to cut losses and increase efficiency was a 49 per cent increase in revenue to $229.5 million. Net income for fiscal 1984 was $480,000 or six cents per common share compared to the loss one year ago of $5,094,000 or $1.08 per common share. The level of net income still leaves room for improvement but it is significant to note that cash flow from operations this year amounts to $4.5 million compared to a deficiency of $4.5 million one year ago.

The major factor in our recovery was the improved margins from increased volumes in our meat packing and processing operations. While it is true that the increased volume was due partially to the strike affecting our major competitors, the improved margins were due to increased efficiency and productivity in our operations. In large measure this can be credited to an excellent relationship with plant employees.

LKR remains the only totally integrated beef producer in Canada, being the only company to maintain control of the product from conception to consumer by raising calves, fattening cattle for slaughter and ultimately slaughtering and processing beef for the retailer and consumer. The concept is unique and offers improved quality control and other efficiencies such as the elimination of many "middle men" expenses inherent in the normal marketing of beef.

During fiscal 1984 a new marketing program was developed through which we intend to capitalize on our unique status by offering our facilities as a merchandising service to other cattle producers. This approach has already proved very successful in attracting increased throughput of our feedlots. We are confident that a continuation and extension of this program planned for 1985 will maximize the utilization of each facility in our total operations.

Obviously, the future health of the cattle industry in Alberta is of extreme importance to us.

Total Sales

($ Millions)

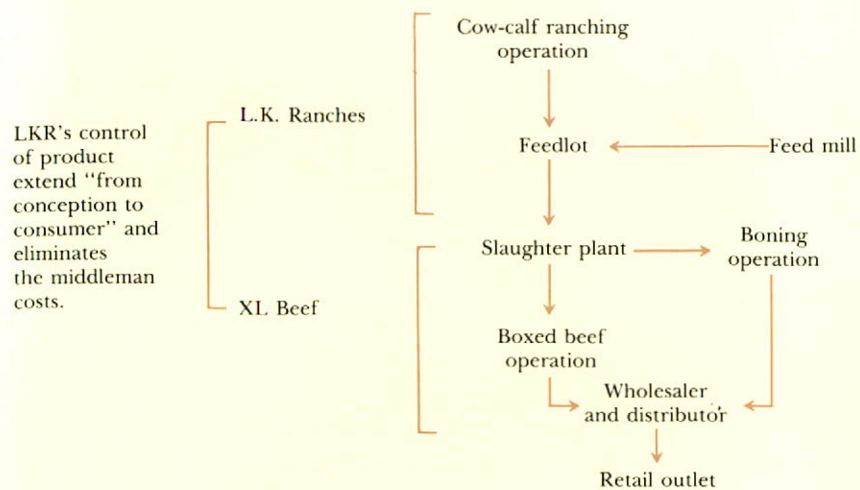
Elsewhere in this report we reflect some of the concerns in this area. We believe that our provincial government must take a more aggressive stand on federal legislation that erodes or eliminates the natural competitive economic advantages that the cattle industry of Alberta once enjoyed. A report highlighting our concerns, including recommendations, is being prepared for presentation to the Government of Alberta.

While our basic objective for 1985 will be to increase the Company's profitability and reduce long-term debt, we will be developing a long range strategy designed to build on our strengths and increase our involvement in what we know best. LKR will make judicious moves into other "food-related" activities in order to further maximize the use of its excellent customer base and skilled personnel. These activities would be aimed at increasing the Company's profit margins from the historic meat packer level of one per cent of sales, while at the same time providing diversification that would minimize our dependence on the cattle industry.

While the past year was rewarding in view of the turnaround accomplished, it has been very demanding for all employees. The extra effort and display of loyalty through difficult times has been greatly appreciated. In addition, we continue to enjoy the support and cooperation of our major bankers which has been a factor in accomplishing our return to profitability.

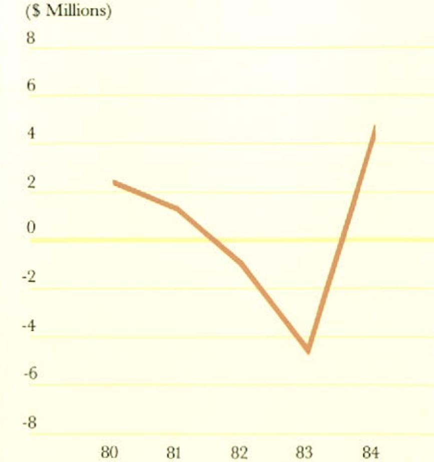
Fiscal 1985 will continue to provide many challenges along with many opportunities. With our regained momentum, we are confident that we can continue to improve profitability and return to a healthy growth pattern. The components are already in place. The ranching division has decades of performance and expertise in raising and feeding cattle. The meat division has excellent facilities and dedicated personnel who have proven their ability to run a profitable and efficient operation. Together these strong operations will provide the base on which the Company can confront what lies ahead and capitalize on the opportunities. Combined with a revitalized marketing approach, we are confident that the objectives set for 1985 will be well within our reach.

Gerald E. Kaumeyer
President



Cash Flow

($ Millions)



L.K. Ranches and XL Feeds

During fiscal 1984, the Bassano operation focused on a three-pronged effort aimed at producing beef more efficiently through:

1) new marketing initiative;
2) increased cooperation between feeding and slaughtering operations, and;
3) an active health program for cattle.

A coordinated and concerted effort to market the services of our feedlots and the feed mill has resulted in a growth in custom feeding and feed sales. In addition an effective new marketing and communications tool was developed through LKR's own livestock information network called the LINK Letter. This newsletter has attracted many new custom feeders to the Company feedlots.

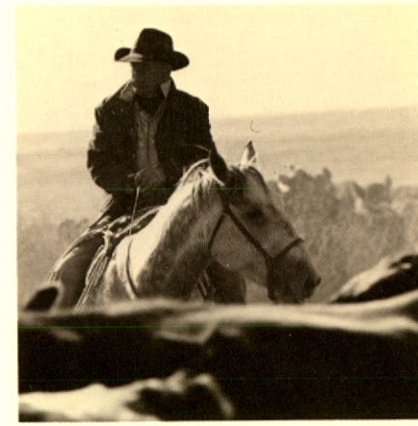
In 1984 the performance of cattle fed at our feedlots was above average. Death losses were held to a minimum due to an active and successful health program resulting in good repeat business.

Cooperation between feedlot and slaughtering ensures that the cattle are slaughtered as soon as they grade. In this way both LKR and custom feeders are able to maximize their investment in fed cattle. The Company's quality and volume integration in the beef business has resulted in benefits to customers who depend on our reliable consistent service.

In summary, the combined initiatives outlined above are beginning to produce good prospects for an increase in the custom feeders planning to use our services in fiscal 1985.

During 1984 XL Feeds Ltd. became a wholly-owned subsidiary of LKR. This feed mill supplies a large part of southern Alberta and has a reputation for highest quality products and outstanding customer service. While XL Feeds has been expanding its market, the majority of production is still utilized by the LKR feedlots. During fiscal 1985 the full and positive impact of XL Feeds will be felt. As the volume of feeding in the feedlots increases, XL Feeds will make a substantial contribution to the overall profitability of the ranch division.

Increasing land productivity for better crop and hay production will be LKR's thrust in the medium term. The effects of last summer's drought on dryland production in southern Alberta were serious and will continue until precipitation returns to normal. However, the Company has reacted to the severe conditions by improving energy, labour and equipment efficiencies in irrigation with good results relative to cost and yield. In addition, although water supplies were limited during fiscal 1984, the Company managed to meet satisfactory production levels of corn and barley silage. This level of success is largely due to the extremely dedicated and skilled group of people involved in labour and management at the Bassano operation. Future efforts to revitalize cropping and grazing programs will continue to focus on efficiency and economic return.



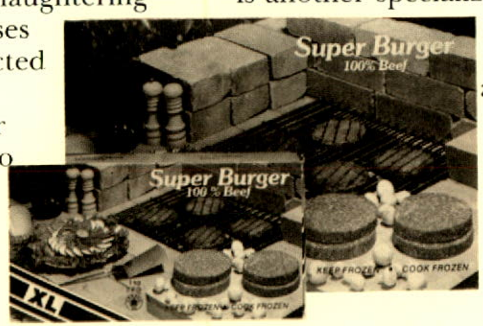
XL Beef Division

The total integration of LKR's beef production is highly visible in the Company's cattle slaughtering and beef processing operations. The conversion of cattle into wholesale and consumer-ready products is accomplished at three "XL" locations in Calgary. These interdependent operations are important links connecting ranching at one end of the chain and the retailer at the other. For LKR, "integration" translates into greater control of the beef being produced and processed, especially important in the critical area of quality.

LKR's control over the processing of beef in the "conception to consumer" cycle begins with cattle from ranch feedlots along with stock purchased from other cattle producers. Animals are slaughtered at a modern, high throughput cattle slaughtering facility. The carcasses are federally inspected and graded, then shipped for further processing. Close to 50 per cent of the carcasses are transferred to the Company's other processing operations with the balance being sold to customers across the country.

The next link in LKR's integrated beef operation is the boxed beef plant. In a specialized cutting operation, grain fed beef carcasses are broken according to customer-specifications. These cuts are then vacuum-packed for storage and shipment. Vacuum-packaging increases the shelf-life of the product, an advantage which has encouraged the growth of the boxed beef trade. The majority of product from this operation is sold to retail chains across Canada as well as to the hotel-restaurant-institutional (HRI) industry. Specific cuts are also exported to such countries as Japan, England, and the United States.

The beef boning operation, initiated in the summer of 1983 is another specialized process in the Company's operations. At this plant cow carcasses from the slaughter plant are de-boned. The boneless beef is vacuum-packed and boxed. This product is supplied to the growing ground beef market in Canada and the U.S.



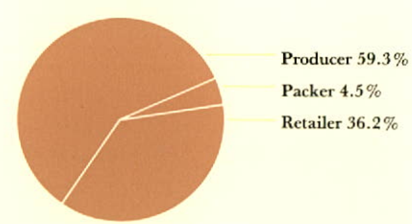
Consumer-ready products are another aspect of the processing division. Sliced frozen liver (skinned and deveined) and the "Superburger" are also feature items produced. XL Beef entered the market with the "Superburger", a frozen, all-beef patty in late fiscal 1984. It is distributed to the major retail chains and is expected to be a success in the consumer burger market this coming spring and summer. In all areas of specialization the name XL Beef is associated with consistent high quality.

Fiscal 1984 was a year of successes for the XL Beef division, despite the atmosphere of adversity surrounding the industry. Production and sales increased at the plants and margins improved as well. Operational efficiencies were enhanced during the year positioning XL Beef as one of the most cost competitive slaughter plants in Canada. Most of the accomplishments were due to internal factors including:

- *output of consistent, high quality product*
- *excellent customer service*
- *aggressive market development*
- *improved productivity and efficiency through a dedicated staff and excellent management-employee relationship*
- *ability to react quickly to market opportunities*
- *integration, providing flexibility and a wide range of services*

During the year, the meat operations were successful in expanding in traditional markets, as well as capturing new customers and new markets. We are confident the larger customer base will not only be maintained but will be expanded in the future as the Company continues to capitalize on the significant strengths already noted.

Consumer Beef Dollar



The Canadian Beef Industry A Broader Perspective

As mentioned previously, the beef industry continued to face problems throughout the year which tested the mettle of many operations at all levels of production. The most persistent problem at the processing level continues to be an over capacity of slaughtering facilities. Even though some closures and rationalization occurred during the year, there continues to be more slaughtering capacity than required for the available supply of cattle.

The major reasons for the current short supply of cattle for slaughter are two-fold. This past summer the industry in Southern Alberta suffered the worst drought in 50 years resulting in the continued sell-off of cows. This fixes the beef cow herd at its lowest point in 15 years. Fewer cows translates into fewer calves and this situation will continue to adversely affect the number of available slaughter cattle over the next three years.

In addition, pressures continued to build on the cattle industry from political spheres. The stabilization programs enacted in provinces to shield producers from the lows caused by natural market forces are, in reality, high enough to have had a stimulatory effect on the production of fed cattle. In other words, the subsidization payments established by Saskatchewan, Manitoba and Quebec, which were meant to protect cattle feeders from bottom-of-the-market prices, are actually encouraging producers to enter into the feeding business. At the same time, the nation's largest producer, Alberta, is witnessing a decline in cattle feeding due to competition for Alberta feeder cattle from subsidized producers in other provinces. Not only are feeder cattle leaving Alberta, but buyers from other provinces are driving up prices to the Alberta-based cattle purchaser. LKR is advocating the passing of the proposed national tripartite stabilization program being considered by our new Federal Government. In effect, this legislation is designed to phase out the existing provincial programs and provide a "safety net" for producers in the event of distressed market conditions. This will allow cattle to be produced where it is most economical.

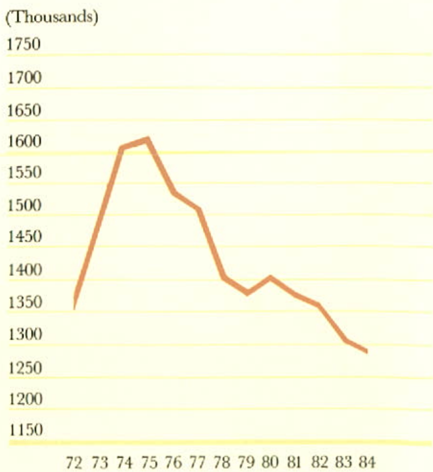
Two other legislative policies of prime concern to the cattle industry are the current method of payment of the Crow Freight Rate Benefit and the Feed Freight Assistance Program. If the Crow Rate subsidies were paid to the grain producer rather than the railway, the producer would have the option of investigating alternative methods of marketing his grain, one of which would be through feeding livestock. If payment is made to the railways, the only way the grain producer can get a benefit is to have his grain exported. The Feed Freight Assistance Program has the effect of partially diluting the normal economic advantage of Alberta cattle feeders by enabling eastern Canadian feeders to purchase their feed requirements at subsidized levels through reduced freight rates.

It is our contention that the Alberta provincial government should take a stronger stand on federal and other province's policies that are detrimental to our cattle industry. It's also incumbent on every cattle producer and related organization to join together to form a stronger lobbying voice on issues seriously affecting the cattle industry in this province.

Provincial Support Payments

Province	Period	Average Amount	Program
Saskatchewan	Jan. 1/82 – Mar. 31/84	$175.38/head	Cow-Calf to Finish Program
		54.08/head	Feeder-Finish Program
Manitoba	Sep. 1/82 – Dec. 31/83	128.61/head	All programs
Quebec	Jan. 1/83 – Dec. 31/83	190.22/cow	Cow-Calf Producers
		228.45/head	Cattle Feeders

Alberta Beef Cow Herd



Management's Financial Review

During fiscal 1984 L.K. Resources reached a number of its financial and operating objectives. Major accomplishments include the following:

- the Cee-Der Log manufacturing division was transferred to key employees
- beef slaughtering and processing operations were restructured and refinanced
- geophysical operations were restructured
- long-term debt was refinanced through an income debenture
- oil and gas operations were restructured
- the remaining 50 per cent interest in the feed mill operation was acquired

In February 1984 the Company transferred its Cee-Der Log operations to certain key employees of that division who entered into a lease agreement with an option to purchase the related assets from the Company. Losses of the division prior to the date of transfer, along with subsequent write-offs aggregate $779,000 and are included in loss from discontinued operations. No material write-offs or losses are anticipated regarding these operations for fiscal 1985.

Because the restructuring and refinancing of the beef slaughtering and processing operations was complete in the first quarter of fiscal 1984, the Company was able to maximize the opportunites presented during the summer when several Alberta meat packing operations were shut down as a result of disputes on wage negotiations. Plant modernization, improvements in production efficiencies and excellent working relationships with our meat operations employees have all contributed to maintaining our competitive edge in the industry.

In May 1984 the Company sold its geophysical assets and operations to Line Resource Information Inc. (LRI), and in return received a secured note and a 40 per cent equity interest in LRI. LKR is confident that this investment will prove to be profitable for the Company. In addition to improving the field seismic contracting services offered, a new and aggressive management team has introduced a complimentary data processing service that continues to expand and contribute to overall profitability.

Net Income
($ Millions)

Comparative Results by Operating Divisions (Thousands of dollars)

	Gross Revenue		Operating Cash Flow		Operating Profit	
	1984	1983	**1984**	1983	**1984**	1983
Oil & Gas	**1,860**	1,557	**1,238**	754	**908**	412
Agribusiness Beef Production	**226,975**	151,873	**9,561**	1,134	**8,009**	(462)
	228,835	153,430	**10,799**	1,888	**8,917**	(50)
Income from geophysical operations					**703**	68
					9,620	18
Interest expense including Income Debenture					**5,568**	5,404
General corporate expense					**1,232**	969
Amortization					**372**	159
Income taxes					**1,221**	(3,321)
Minority interest					**—**	17
Extraordinary items					**(225)**	927
Discontinued operations					**972**	957
Net income (loss)					**480**	(5,094)

For further details of results of operations by divisions, please refer to Note 8 in the financial statements.

One of the Company's major objectives over the past year has been to reduce long-term debt. Although long-term debt totalling $3.3 million was retired during the year, the balance sheet shows a debt increase of $4.4 million. This increase can be attributed to the Company's restructuring of banking arrangements with its prime lender. In this instance $7.1 million of the Company's operating loans were reclassified as long-term debt under the provisions of an income debenture. This debenture was established in May 1984 bearing interest at 50 per cent of bank prime plus 2 ½ per cent and had a positive effect in controlling interest costs for the year. The income debenture will continue to benefit the Company by means of future interest savings. The Company remains committed to the reduction of long-term debt throughout 1985.

In April 1984 L. K. Resources acquired the 18 per cent minority shareholders' interest in L.K. Oil and Gas Ltd. (LKOG). Once this transaction was completed, LKOG sold certain of its production and exploration assets to a newly-formed company, Triweb Resources Ltd. in which LKOG retained a 12.5 per cent equity interest. LKOG remains a wholly-owned subsidiary of the company and retains ownership of certain royalty production income as well as its interest in the Banquereau acreage offshore Nova Scotia. Independent engineering evaluations of LKOG's oil producing properties indicate that the Company's net reserves have a present value of $66.3 million undiscounted and 15 per cent discounted value of $11.9 million.

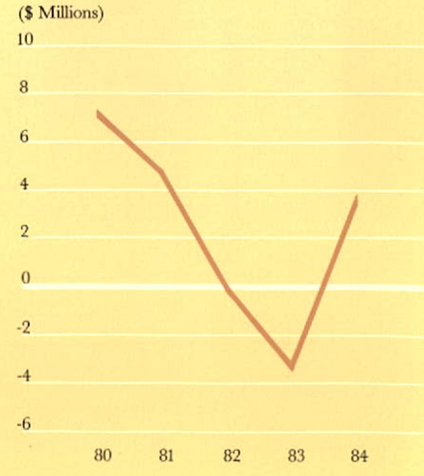
In June 1984 the Company's 50 per cent owned corporate joint venture, XL Feeds Ltd., aquired the other partner's interest and thereby became a wholly-owned subsidiary of the Company. Prior to this transaction, the Company's ranching division had all the risk of cattle feeding but only shared 50 per cent of the feed mill profits. Traditionally a major portion of profit from feedlot operations is generated from feed mill business. Since September 1984 the feed mill operation has been increasingly profitable due to new outside business and increased throughput in the ranch division feedlots.

Reaching these objectives and operating as a fully integrated beef operation unit has resulted in the Company returning to profitable operations. Funds provided from operations for fiscal 1984 aggregated $4,541,000 compared to $4,518,000 being applied in 1983. Working capital increased by $7,094,000 in 1984 compared to a decrease of $3,076,000 in 1983. Working capital position at September 30, 1984 amounted to $3,808,000 compared to a deficiency in 1983 of $3,286,000.

In fiscal 1984 consolidated sales increased by $75 million or 49 per cent while direct expenses only increased 44 per cent for a positive difference of five per cent. As shown in the attached table, comparative results of our operating divisions before interest expense, depreciation, general and administrative show a cash flow from operations of $10.8 million compared to $1.9 million in 1983. General corporate costs increased from $969,000 to $1,232,000 in 1984 primarily as a result of increased professional fees incurred by the Company in restructuring and refinancing its operations. Depreciation, depletion and amortization increased by seven per cent principally as a result of increased depletion provision on higher oil production.

Fiscal 1985 will continue to be a year of challenge. However, by having accomplished a number of corporate objectives during 1984, ample evidence exists that the Company will be able to meet those challenges. Further reduction in long-term debt together with corresponding reduction in interest costs, and the curtailment of losses from discontinued operations will bring broad improvement in the balance sheet for fiscal 1985. Our continuing objective of increasing profit margins in all areas of the integrated beef operation will provide the basis for continued growth throughout 1985.

Working Capital



Consolidated Balance Sheet

September 30, 1984

Assets	1984	1983
Current assets:		
Accounts receivable	**$15,868,000**	10,983,000
Inventories, at lower of cost and net realizable value	**7,069,000**	7,905,000
Prepaid expenses	**213,000**	164,000
	23,150,000	19,052,000
Assets held for resale (Note 2)	**1,655,000**	1,757,000
Fixed assets, less accumulated depreciation, depletion, and amortization (Note 3)	**32,939,000**	39,254,000
Other assets (Note 4)	**11,340,000**	7,964,000
	$69,084,000	68,027,000

On behalf of the Board:

________________, Director

________________, Director

Liabilities	1984	1983
Current liabilities:		
Due to bank (Note 5):		
Bank overdraft	**$ 3,207,000**	1,779,000
Bank loans	**9,489,000**	12,901,000
Income taxes payable – subsidiary	**53,000**	–
Accounts payable and accrued liabilities	**4,258,000**	5,663,000
Current portion of long-term debt	**2,335,000**	1,995,000
	19,342,000	22,338,000
Long-term debt, net of current portion (Note 5)	**33,329,000**	29,295,000
Deferred income taxes	**1,591,000**	331,000
Minority interest:		
Common shares	**–**	17,000
Cumulative, retractable, redeemable preferred shares	**296,000**	–
Shareholders' equity:		
Share capital (Note 6)	**5,543,000**	7,543,000
Contributed surplus	**352,000**	352,000
Appraisal surplus	**11,541,000**	12,675,000
Deficit	**(2,448,000)**	(4,062,000)
	14,988,000	16,508,000
Less: Shares held for employee stock purchase plan	**(462,000)**	(462,000)
	14,526,000	16,046,000
	$69,084,000	68,027,000

See accompanying notes.

Consolidated Statement of Income and Deficit

Year ended September 30, 1984

	1984	1983
Sales	**$228,835,000**	153,430,000
Income from geophysical operations	**703,000**	68,000
	229,538,000	153,498,000
Expenses:		
Direct	**218,036,000**	151,542,000
General and administrative	**1,232,000**	969,000
Interest – long-term	**3,304,000**	3,787,000
– other	**1,660,000**	1,617,000
Depreciation, depletion, and amortization	**2,254,000**	2,097,000
	226,486,000	160,012,000
Income (loss) from continuing operations	**3,052,000**	(6,514,000)
Loss from discontinued operations (Note 8)	**(972,000)**	(957,000)
Income (loss) before income taxes, income debenture interest, minority interest and extraordinary items	**2,080,000**	(7,471,000)
Income taxes (Note 7):		
Current	**42,000**	–
Deferred (recovered)	**1,179,000**	(3,321,000)
	1,221,000	(3,321,000)
Income (loss) before income debenture interest, minority interest and extraordinary items	**859,000**	(4,150,000)
Income debenture interest	**604,000**	–
Income (loss) before minority interest and extraordinary items	**255,000**	(4,150,000)
Minority interest	**–**	(17,000)
Income (loss) before extraordinary items	**255,000**	(4,167,000)
Extraordinary items (Note 9)	**225,000**	(927,000)
Net income (loss)	**480,000**	(5,094,000)
Retained earnings (deficit), beginning of year	**(4,062,000)**	1,192,000
Preferred share dividends	**–**	(160,000)
Realized gain on appraised lands	**1,134,000**	–
Deficit, end of year	**$ (2,448,000)**	(4,062,000)
Income (loss) per share:		
Before extraordinary items	**$ .02**	(.90)
Extraordinary items	**.04**	(.18)
Net income (loss)	**$ .06**	(1.08)

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Year ended September 30, 1984

	1984	1983
Funds provided:		
Income (loss) before extraordinary items	**$ 255,000**	(4,167,000)
Add non-fund items	**4,286,000**	(351,000)
Total funds provided from (applied to) operations	**4,541,000**	(4,518,000)
Proceeds on disposal of fixed assets	**6,687,000**	1,657,000
Proceeds on issue of long-term debt	**7,103,000**	4,200,000
Proceeds on issue of preferred shares – subsidiary	**296,000**	–
Proceeds on issue of share capital	**–**	84,000
Decrease in other assets	**354,000**	181,000
Total funds provided	**18,981,000**	1,604,000
Funds applied:		
Purchase of fixed assets	**1,806,000**	2,030,000
Reduction of long-term debt	**3,244,000**	1,711,000
Preferred share redemption	**–**	410,000
Letter of credit – preferred shares (Note 6)	**2,000,000**	–
Increase in other assets	**4,587,000**	369,000
Preferred share dividends	**–**	160,000
Acquisition of 50% interest in subsidiary, net of working capital of $46,000	**250,000**	–
Total funds applied	**11,887,000**	4,680,000
Increase (decrease) in working capital	**7,094,000**	(3,076,000)
Working capital (deficiency), beginning of year	**(3,286,000)**	(210,000)
Working capital (deficiency), end of year	**$ 3,808,000**	(3,286,000)

See accompanying notes.

Notes to the Consolidated Financial Statements

September 30, 1984

1. Significant accounting policies:

(a) Principles of consolidation

The consolidated financial statements include the accounts of L.K. Resources Ltd. and its subsidiaries.

Effective June 30, 1984, the Company's 50%-owned corporate joint venture, XL Feeds Ltd., acquired the other venturer's interest and therefore the corporate venture became a wholly-owned subsidiary of the Company. The cost and consideration are as follows:

Cost:	
Share of net current assets	$ 46,000
Share of fixed and other assets, at net book value	469,000
	515,000
Deduct:	
Long-term debt	175,000
Deferred income taxes	44,000
	219,000
	$296,000
Consideration:	
Class "C" cumulative, retractable, redeemable preferred shares of subsidiary	$296,000

During the year, the Company sold its geophysical assets and operations at net book value to another company, Line Resource Information Inc. ("LRI"). The consideration received on the sale of these assets consisted of a secured note aggregating $2,543,000 along with a 40% equity interest in LRI. The secured note bears interest at 9% and is payable in equal monthly instalments over four years commencing June 1985. This investment is accounted for under the equity method of accounting for long-term investments.

During the year, the Company acquired all the outstanding and issued shares held by the 18% minority shareholders in L.K. Oil & Gas Ltd. In addition, the wholly-owned subsidiary then sold certain of its production and exploration assets to a newly formed company in consideration for cash, notes, and a 12 ½% equity interest in the new company.

(b) Depreciation and amortization

Depreciation is provided on the straight-line method using the following rates which are designed to depreciate or amortize the assets over their estimated useful lives:

Assets	Rate
Buildings	2½ – 10%
Vehicles and moveable equipment	10 – 30%
Machinery, equipment, furniture, and fixtures	10 – 20%
Fences, wells, and dugouts	5 – 10%

Financing costs are being amortized on the straight-line method over a five year period.

(c) Foreign exchange

Accounts of the United States subsidiaries have been translated to Canadian funds on the following basis:

Current assets and current liabilities at the exchange rate in effect at the end of the year.

Other assets and liabilities at the rate of exchange prevailing when acquired or incurred.

Revenue and expenses (excluding depreciation and amortization which are translated at the same rate as the related assets) at the average rate of exchange for the year. Translation gains and losses are included in the consolidated statement of income.

(d) Goodwill

Goodwill is being amortized on a straight-line basis over thirty years.

(e) Appraisal surplus

In 1979, a predecessor company obtained mortgage financing secured by lands. Certain of the lands securing this mortgage had an appraised value of $17,634,000. Accordingly, the Board of Directors approved the recording of the excess of the appraised value over the previous carrying value which amounted to $16,575,000 on which a provision for income taxes of $3,900,000 has been provided and credited to deferred income taxes. The appraisal value of the lands was determined by Floen Appraisals Ltd., as of March 5, 1979; all other lands are carried at cost. During 1984, certain of these lands were sold resulting in $1,134,000 of the appraisal surplus being realized.

(f) Oil and gas properties

The Company follows the full cost method of accounting for its oil and gas properties whereby all costs related to the exploration for and development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges of non-productive properties, cost of drilling both productive and unproductive wells and all technical and administrative overhead related with exploration and development. Proceeds received from disposal of properties are normally credited against such costs. Depletion is provided for by the unit of production method based on total estimated proven reserves.

(g) **Comparative figures**

Certain comparative figures for 1983 have been reclassified to conform with 1984 presentation.

(h) **Income (loss) per share**

Net income (loss) per common share is based on the monthly weighted average number of common shares outstanding and earnings after deduction of preferred share dividends.

2. Assets held for resale:
(at net realizable value)

	1984	1983
Land	$ **433,000**	433,000
Buildings	**964,000**	1,055,000
Other	**258,000**	269,000
	$ **1,655,000**	1,757,000

3. Fixed assets, at cost, except land:

	1984	1983
Land	**$17,210,000**	18,812,000
Buildings	**8,318,000**	7,481,000
Vehicles	**1,089,000**	1,541,000
Moveable equipment	**181,000**	4,066,000
Machinery and equipment	**8,265,000**	7,905,000
Furniture and fixtures	**406,000**	422,000
Land improvements	**415,000**	385,000
Fences, wells, and dugouts	**729,000**	707,000
Oil and gas properties including equipment thereon	**4,859,000**	6,869,000
	41,472,000	48,188,000
Accumulated depreciation, depletion, and amortization	**8,533,000**	8,934,000
	$32,939,000	39,254,000

4. Other assets:

	1984	1983
Notes receivable, net of current portion	$ **3,528,000**	315,000
Goodwill, at cost less accumulated amortization of $907,000 (1983 – $658,000)	**6,544,000**	6,793,000
Financing costs, less accumulated amortization of $760,000 (1983 – $383,000)	**442,000**	295,000
Other, at cost	**826,000**	561,000
	$11,340,000	7,964,000

5. Long-term debt:

	1984	1983
11 ½% first mortgage, payable in monthly instalments including interest of $105,000, secured by certain lands and premises	$ **–**	9,244,000
13 ½% first mortgage, payable in monthly instalments including interest of $92,000, secured by certain lands and premises situated in Alberta, due June 30, 1986	**7,059,000**	–
Income debenture (see below)	**17,000,000**	–
Term bank loan	**–**	10,837,000
Term bank production loan, interest at prime plus 1 ½% payable from production proceeds and secured by pledges on certain oil and gas properties	**3,100,000**	2,615,000
Term bank loan, interest at prime plus 1 ½% payable in monthly instalments including interest of $83,500, secured by mortgage on certain lands, buildings and equipment	**6,652,000**	6,757,000
Term bank loan, interest at prime plus 2%, payable in monthly principal instalments of $16,000 (U.S. funds), secured by a specific charge on equipment and a floating charge debenture of United States subsidiary	**537,000**	757,000
Term bank loan, interest at prime plus 2%, payable over 5 years	**487,000**	82,000
Obligations under capital leases	**394,000**	552,000
Other	**435,000**	446,000
	35,664,000	31,290,000
Deduct current portion	**2,335,000**	1,995,000
	$33,329,000	29,295,000

During the year, the Company restructured certain operating and term bank loans into an income debenture due in May, 1989. The debenture bears interest at 50% of the bank prime rate plus 2 ½%. Annual principal repayments are due equal to 60% of the parent Company's net cash flow as defined in the debenture agreement. Principal repayment due for fiscal 1984 aggregates $1,400,000 and is included in current portion of long-term debt.

Principal repayments of the Company's long-term debt in each of the next five years, excluding the term bank production loan and income debenture, are as follows:

1985	$935,000
1986	869,000
1987	566,000
1988	510,000
1989	505,000

All bank indebtedness is secured by general assignments of book debts and a pledge of inventories. In addition, fixed and floating charge debentures, aggregating $45,100,000, have been issued as additional security of which $35,000,000 is secured by a second specific charge against certain lands, buildings, and equipment, subject to permitted encumbrances. The Company's present revolving lines of credit aggregate $13,900,000.

The Company has guaranteed certain bank indebtedness of Line Resource Information Inc. ("LRI") to a maximum of $1,750,000. At September 30, 1984, the related outstanding banking indebtedness of LRI is $1,200,000.

6. Share capital:

	1984	1983
First Preferred Shares without nominal or par value. Authorized 200,000 shares; issued: 16,414 8.75% Cumulative Redeemable Preferred Shares, Series "A"	$ –	1,641,000
20,000 7% Cumulative Redeemable Convertible First Preferred Shares, Series "B"	**1,641,000**	2,000,000
Class "A" Special Shares without nominal or par value. Authorized 10,000,000 shares; issued 2,471,172 shares	**1,850,000**	1,850,000
Class "B" Non-Voting Shares without nominal or par value. Authorized 10,000,000 shares; issued 2,542,672 shares	**2,052,000**	2,052,000
	$5,543,000	7,543,000

Under the rights and conditions of the Series "A" and "B" Preferred Shares, $2,000,000 was secured by a bank letter of credit. The letter of credit firstly secured the annual redemption of the Series "A" Preferred Shares and so long as the Series "B" Preferred Shares had not been converted or redeemed, the letter of credit would be continued. During the year, the holders of the Series "A" and "B" Preferred Shares called the letter of credit referred to above and as a result $1,641,000 of Series "B" Preferred Shares due October 1, 1986 remain outstanding. The 7% Series "B" Preferred Shares are redeemable on October 1, 1986 and are convertible at any time prior to September 30, 1986 into an equal number of Class "A" Special Shares and Class "B" Non-Voting Shares at a conversion price of $4.50 per Class "A" Special and $4.50 per Class "B" Non-Voting Share. The preferred share dividends, due from April 1, 1983 to October 1, 1984 aggregating $466,000, have not yet been paid.

The Class "B" Non-Voting Shares are non-voting except in special circumstances, but in all other aspects rank pari passu with the Class "A" Special Shares.

Under the Employee Stock Purchase Plan the Company has authorized 75,000 Class "A" Special Shares and 175,000 Class "B" Non-Voting Shares. Total shares issued and outstanding under the purchase plan aggregate 66,000 Class "A" Special Shares and 91,000 Class "B" Non-Voting Shares at September 30, 1984.

Under the Employee Stock Option Plan the Company has authorized 75,000 Class "A" Special Shares and 175,000 Class "B" Non-Voting Shares. Options on 29,000 Class "A" Special Shares and 59,000 Class "B" Non-Voting Shares were cancelled during the year. The options are exercisable at 20% per year on a cumulative basis and are for a term of six years. Total shares reserved under the option plan aggregate 20,250 Class "A" Special Shares and 32,250 Class "B" Non-Voting Shares at September 30, 1984.

The Company has also reserved 182,377 Class "A" Special Shares and 182,377 Class "B" Non-Voting Shares for conversion of the 16,414 7% First Preferred Convertible Shares outstanding.

7. Income taxes:

Income tax expense (recovery) differs from the amount that would have been expected if the reported pre-tax income (loss) was subject to the combined Federal and Provincial tax rates for the year. The principal reasons for the difference between such "expected" income tax expense (recovery) and the amount actually expensed (recovered) are as follows:

	1984	1983
Computed "expected" income tax expense (recovery)	**$ 982,000**	(3,646,000)
Add (deduct):		
Amortization of goodwill	**120,000**	122,000
Inventory allowance	**(26,000)**	(67,000)
Non-deductible depreciation and depletion	**127,000**	42,000
Provincial royalties and taxes	**121,000**	51,000
Resource allowance	**(118,000)**	(108,000)
Manufacturing and processing credit	**5,000**	269,000
Reversal of deferred income taxes accumulated at lower rates	**(174,000)**	–
Unrecognized tax benefit of losses carried forward of subsidiaries	**96,000**	–
Non-deductible losses of equity investment	**91,000**	–
Other	**(3,000)**	16,000
	$1,221,000	(3,321,000)

8. Segmented information:

The Company has operated primarily in three industries; agribusiness beef production, comprised of the integrated operation of raising, feeding, and slaughtering of cattle along with feed and grain production; natural resource services, comprised of field seismic service to the petroleum industry; and oil and gas exploration and production.

Effective May 1, 1984, the Company sold its geophysical operations to Line Resource Information Inc. ("LRI") retaining a 40% equity interest in LRI. Results of the geophysical operations for the year are as follows:

	1984	1983
Operating profit of natural resource division through to April 30, 1984 (1983 to September 30, 1983)	**$895,000**	68,000
Equity in losses of LRI May 1, 1984 to September 30, 1984	**(192,000)**	–
	$703,000	68,000

Loss from discontinued operations represent the operating losses of the cedar log manufacturing division prior to the transfer of operations to certain key employees under a lease agreement with an option to purchase the related assets from the Company. In addition, further operating losses were incurred upon full curtailment of the gravel aggregate operations.

8. Segmented information (continued)

	1984 Oil & Gas	1984 Agribusiness Beef Production	1984 Consolidated	1983 Oil & Gas	1983 Agribusiness Beef Production	1983 Consolidated
Sales	$1,860,000	226,975,000	228,835,000	1,557,000	151,873,000	153,430,000
Operating profits (losses)	$ 908,000	8,009,000	8,917,000	412,000	(462,000)	(50,000)
Direct corporate expenses:						
Interest expense:						
Long-term			3,304,000			3,787,000
Other			1,660,000			1,617,000
General corporate expense			1,232,000			969,000
Amortization			372,000			159,000
			6,568,000			6,532,000
Income (loss)			2,349,000			(6,582,000)
Income from geophysical operations			703,000			68,000
Income (loss) from continuing operations			3,052,000			(6,514,000)
Identifiable assets	$7,888,000	54,683,000	62,571,000	8,080,000	49,129,000	57,209,000
Corporate assets			6,513,000			10,818,000
Total assets			69,084,000			68,027,000
Capital expenditures	$ 543,000	1,029,000	1,572,000	805,000	875,000	1,680,000
Corporate capital expenditures			234,000			350,000
Total capital expenditures			1,806,000			2,030,000
Depreciation and depletion	$ 330,000	1,300,000	1,630,000	342,000	1,372,000	1,714,000
Amortization		252,000	624,000		224,000	383,000
Total depreciation, depletion, and amortization			2,254,000			2,097,000

9. Extraordinary items:

	1984	1983
Gain on sale of ranch lands (net of deferred income taxes of $37,000 (1983 – $247,000))	$225,000	1,103,000
Provision for write-down of fixed assets held for resale	–	(1,650,000)
Provision for write-down of other assets	–	(300,000)
Deferred income tax provision on loss of tax benefit of loss carry forward	–	(80,000)
	$225,000	(927,000)

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of L.K. Resources Ltd. as at September 30, 1984 and the consolidated statements of income and deficit 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 September 30, 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.

Calgary, Canada
December 18, 1984

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Corporate Information

Officers

Neil A. McKinnon
Chairman of the Board

Gerald E. Kaumeyer
President and Chief Executive Officer

T. Peter Luzi
Senior Vice-President

G. David Michaels
Secretary/Treasurer

Issie Elman
Controller

Directors

John K. Church
Balzac, Alberta
Farmer

Donald J. Douglas
Calgary, Alberta
Vice-President and General Manager
United Management Ltd.

Gerald E. Kaumeyer
Calgary, Alberta
President and Chief Executive Officer
L.K. Resources Ltd.

T. Peter Luzi
Calgary, Alberta
Senior Vice-President
L.K. Resources Ltd.

Neil A. McKinnon
Bassano, Alberta
Chairman of the Board
L.K. Resources Ltd.

Russell L. McKinnon
Calgary, Alberta
Barrister & Solicitor
MacKimmie Matthews

Purvis J. Paulgaard
Provost, Alberta
Rancher & Farmer

V. Kenneth Travis
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President
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Calgary, Alberta

First Interstate Bank of Denver N.A.
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The Canada Trust Company
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Alberta Stock Exchange
Calgary, Alberta
Trading Symbol: LKR

Toronto Stock Exchange
Toronto, Ontario
Trading Symbol: LKR

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