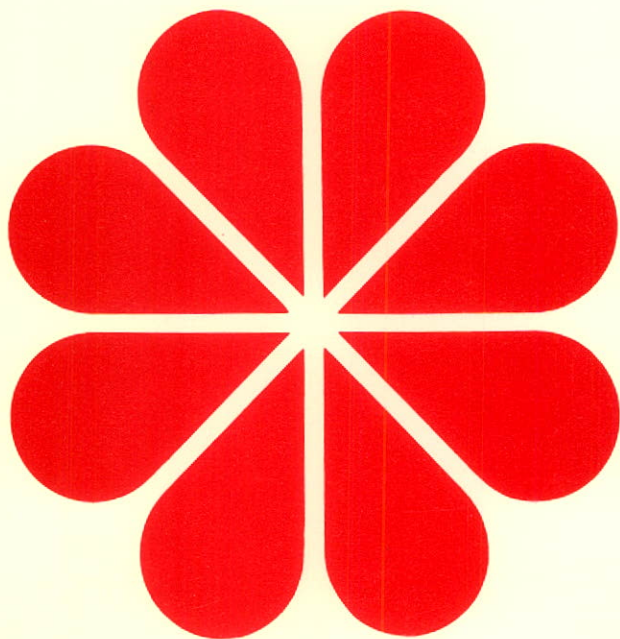


The Becker Milk Company Limited

Annual Report

Year ended April 30, 1985



Becker's[®]

**FRESH
& READY
FOODS**



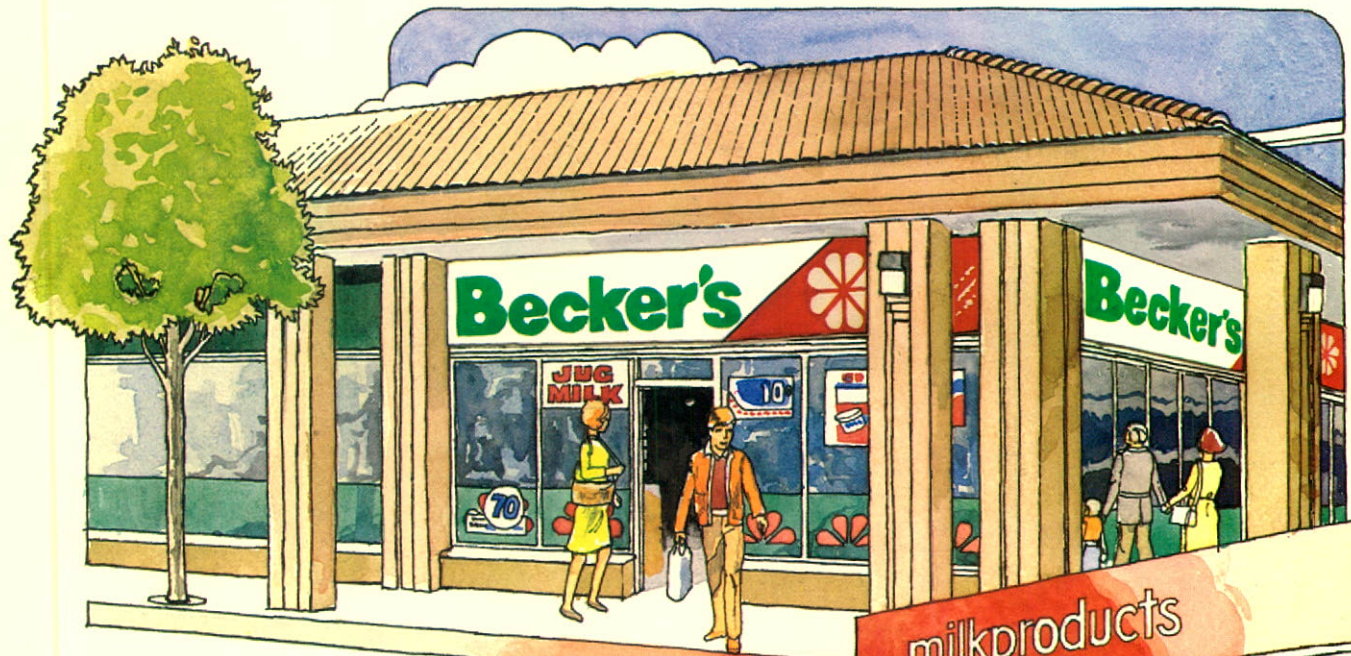
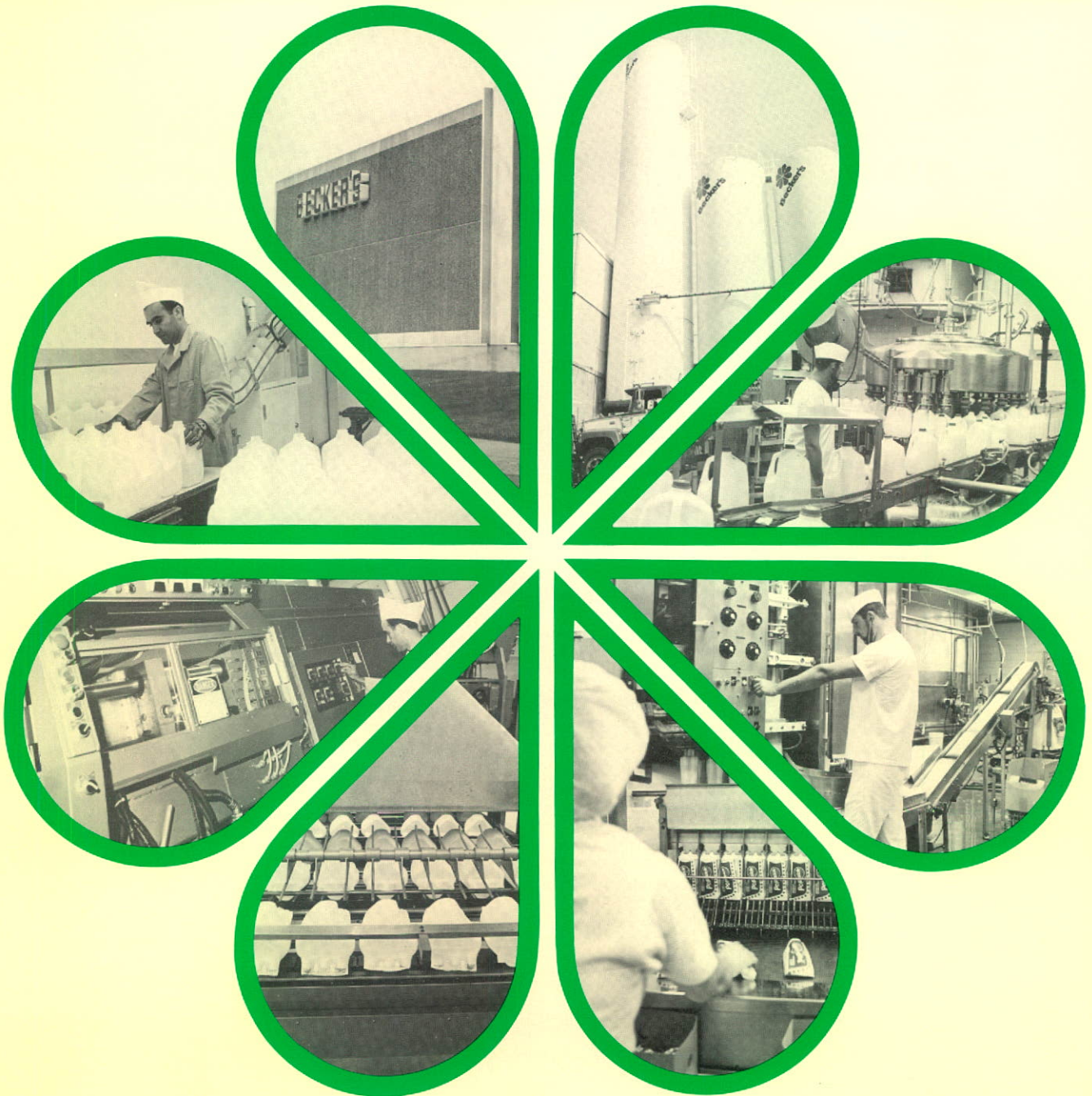
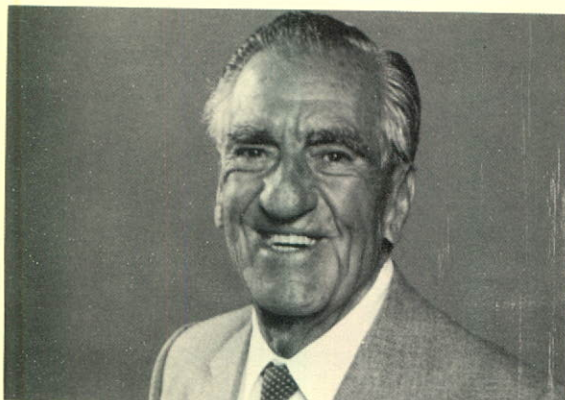


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Directors' report to the shareholders



Our Company has now completed twenty-eight years of operations. We are very pleased to report that our latest year, ended April 30, 1985, has again been an outstanding one.

It is most gratifying that we can state this despite the continuously competitive conditions we have had to face.

For quite a number of years we have felt it necessary to comment upon the intense competition within the supermarket industry in our trading area.

Some time ago it had become apparent that we just had too many supermarkets. Many of them, through changes in the market place, had become obsolete, were of the wrong size, wrong type or just in the wrong location.

A period of store closings followed, yet at the same time accompanied by the opening of stores of a different type - the huge super stores, food warehouses and no frills stores. The net result: still too many supermarkets.

Hence the battle for market share continues unabated with offers of deep-cut specials and outright loss leaders.

This pursuit of the market share by the supermarkets has, of course, had a profound effect upon all of us engaged in food processing and retailing.

In the quest for tempting features to attract customers, the supermarkets have embroiled many of their food processing or manufacturing suppliers in their battle. This has been especially noticeable with the dairy and soft drink industries where some separate market-share battles were already being fought.

There the turmoil of the past few years has already brought about some significant changes, resulting in the concentration and consolidation of manufacturing and marketing facilities of some of the supplier contestants.

Food retailers, other than supermarkets, also have felt the competitive pressures. We too have had to seek ways to at least maintain, ideally to increase, our market share.

To do this and yet maintain profitability we have had to be more efficient and resourceful in our traditional endeavours and have had to become more innovative in seeking ways to widen the scope of our activities.

We have been doing this for some years now. Fast food operations, and more recently gasoline retailing, have been given increasingly more attention. Most of our new stores are now involved, at least to some degree, in fast food sales and many also offer self-serve gasoline. During the summer season more and more of our stores sell dip ice-cream featuring our own top quality Dolly Madison flavours.

In this past year we were able to increase the number of our outlets by 28 stores. It was our largest annual net increase in the number of stores since 1980 when we added 31 stores. This was achieved despite our continuing programme of phasing out stores which no longer make the expected contribution to our operating results.

Another significance to this growth was that it was all produced from within Southern Ontario, our old Becker Country, which is perhaps as saturated with convenience stores as it is with supermarkets.

This expansion in the number of our outlets and the continuing programme of renovating and updating of older stores, has caused the expenditures for fixed asset additions to escalate to just over 10.5 million dollars. It is perhaps noteworthy that this growth was achieved without the need for further long-term financing, indeed our long-term debt decreased during the year.

Directors' report to the shareholders

While we have given a lot of attention to the innovative part of our operations, we have not neglected the more traditional aspects of our business. Many years ago we used a slogan "Milk and Bread is our business". We still consider this statement valid now. The trade wars have perhaps made it to be a more difficult business to be in but here too good ideas and innovations will help.

We are not just operating a chain of convenience stores. We also have a very large commitment in food processing and distribution. We operate two modern dairies and additional distribution depots for delivery efficiency. Our main plant also manufactures ice-cream and novelties, including the popsicles which we are able to feature from time to time at very attractive prices and to the great delight of our younger customers.

This part of our business assures us that our stores can offer our customers the freshest and highest quality dairy products possible.

The significant recent changes here have been our improvements to our distribution systems and of course our exclusive, returnable 4 litre milk jug.

The distribution changes, recently completed, have particularly affected our supply of bread and other baked goods. Now the deliveries of our own label bread have been consolidated with the delivery of national brand bakery products, assuring us of more frequent deliveries of fresh product.

In other deliveries too, efficiencies have been gained by converting more and more to tractor-trailer operations, even for the delivery of ice-cream and frozen food. This has resulted in more flexibility in the usage of our delivery equipment, which now can be more fully utilized.

Our 4 litre jug is a relatively recent addition to the product line offered from our own plant and its unique position in our milk marketing programme warrants mention here.

We introduced it in 1983 as a "Becker's First in Ontario" and now it still is the only returnable four litre milk container in Ontario.

We feel it combines all the best features of a non-returnable container with those of the returnables.

It is a very convenient and easy to handle container and also gives our customers the assurance that it has been filled only once. Each jug has been blow-molded, from new material, in our own plant, filled and distributed, ready to be picked up in the store by our customers. There can be no more rumours of "foreign objects" found in milk or worries that the jug may have

been used before to store some other substance.

Yet the return of the empty jug to our store will minimize the waste disposal and environmental problems of our community. Each jug will be recycled and its precious raw material used again. The returned jugs are ground up in our plant and the product sold to be used to make goods such as plastic watering cans or pipes. It will not be used as material for food containers.

The returnable 4 litre jug has not only fulfilled our customers need for a choice in containers but has also been an unqualified success from the environmental standpoint since virtually all jugs are returned to our plant for recycling.

We are confident that the Waste Management Branch of the Ontario Ministry of Environment is just as pleased as we are with the actual rate of return that we have been able to obtain from our customers for the jug. It is a proof for the validity of our original contention that this jug is a sound idea for our environment and a convenience for our customers.

The results derived from all of our activities and endeavours during the year are shown in detail in the financial statements contained in this report.

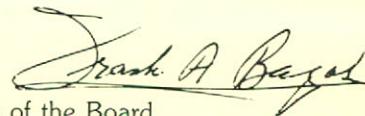
We feel the results are excellent and a proper reflection of the dedication and the conscientious efforts of our employees and associates.

We have every confidence that we will continue our successful growth during the coming year.

The changes in the industry, which have taken place, resulting in the dropping out of some of the competing supermarket chains from our market place, have not made us relax our own efforts. The change in the players is not likely to ease our competitive environment. It is indeed possible that the actions of the newly dominant supermarket groups may actually intensify the competition.

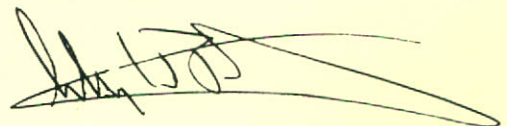
We will be ready to try still harder to be more efficient and innovative in order to maintain or improve our position as Ontario's leading integrated chain of Convenience Stores.

Sincerely,



Chairman of the Board

President



July 10, 1985

Highlights of the year

	Year Ended April 30		Percentage Change
	1985 \$	1984 \$	
Sales	283,084,979	257,226,204	10.1
Operating earnings	17,406,529	15,817,938	10.0
Earnings before extraordinary item	6,117,151	5,676,774	7.8
Net earnings	6,699,151	5,676,774	18.0
Earnings per share			
Before extraordinary item	3.52	3.26	8.0
After extraordinary item	3.86	3.26	18.4
Long-term debt	4,060,129	4,477,938	(9.3)
Shareholders' equity	43,785,155	38,157,070	14.7
Shares outstanding — Class A	5,675	5,675	—
— Class B	1,187,610	1,187,610	—
— Common	540,750	540,750	—
Number of Stores	681	653	4.3

The Becker Milk Company Limited and Subsidiary Companies

Consolidated Statement of Retained Earnings

Year ended April 30, 1985

	1985 \$	1984 \$
Balance at beginning of year	36,672,327	32,066,619
Net income	6,699,151	5,676,774
	43,371,478	37,743,393
Dividends — class A preference shares	34,050	34,050
— class B special shares	712,566	712,566
— common shares	324,450	324,450
	1,071,066	1,071,066
Balance at end of year	42,300,412	36,672,327

Consolidated Statement of Income

Year ended April 30, 1985

	1985 \$	1984 \$
Sales	283,084,979	257,226,204
Income before depreciation and amortization, interest charges and taxes on income	17,406,529	15,817,938
Depreciation and amortization	4,994,667	4,405,779
Interest charges on long-term debt	526,711	558,053
	5,521,378	4,963,832
Income before income taxes and extraordinary item	11,885,151	10,854,106
Taxes (recoverable) on income — Note 10		
Current	5,965,000	5,275,000
Deferred	(197,000)	(97,668)
	5,768,000	5,177,332
Income before extraordinary item	6,117,151	5,676,774
Extraordinary item — Note 8	582,000	—
Net income	6,699,151	5,676,774
Earnings per class B and common shares		
Before extraordinary item	3.52	3.26
After extraordinary item	3.86	3.26

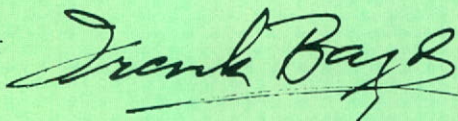
The Becker Milk Company Limited and Subsidiary Companies

Consolidated Balance Sheet April 30, 1985

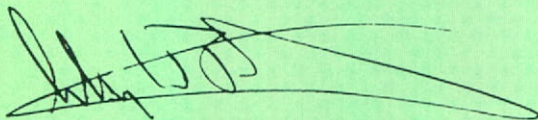
ASSETS	1985 \$	1984 \$
Current		
Cash	65,500	61,300
Accounts receivable	2,517,125	2,319,224
Inventories — Note 2	23,406,826	20,428,500
Corporation income tax refund	3,981,411	—
Prepaid expenses and deposits	675,631	1,083,098
Investments — current portion — Note 3	12,204	12,262
	<u>30,658,697</u>	<u>23,904,384</u>
 Investments — Note 3	 <u>140,482</u>	 <u>171,476</u>
 Fixed — Note 4	 <u>44,684,265</u>	 <u>38,927,417</u>
 Other — Note 5	 <u>1,174,307</u>	 <u>1,177,207</u>
	 <u>76,657,751</u>	 <u>64,180,484</u>

Approved by the Board:

Director



Director



The Becker Milk Company Limited and Subsidiary Companies

Consolidated Balance Sheet April 30, 1985

LIABILITIES	1985 \$	1984 \$
Current		
Bank indebtedness	7,320,128	2,063,955
Accounts payable and accrued charges	19,289,348	17,109,420
Dividends payable	518,508	518,508
Long term — current portion — Note 6	763,816	760,705
	<u>27,891,800</u>	<u>20,452,588</u>
Long term — Note 6	4,193,701	4,586,730
Deferred Income Taxes	787,095	984,096
	<u>32,872,596</u>	<u>26,023,414</u>
SHAREHOLDERS' EQUITY		
Share Capital — Note 7	1,484,743	1,484,743
Retained Earnings	42,300,412	36,672,327
	<u>43,785,155</u>	<u>38,157,070</u>
	<u>76,657,751</u>	<u>64,180,484</u>

The Becker Milk Company Limited and Subsidiary Companies

Consolidated Statement of Changes in Financial Position Year ended April 30, 1985

	1985 \$	1984 \$
Sources of Working Capital		
Operations		
Income before extraordinary item	6,117,151	5,676,774
Items not affecting working capital		
Depreciation, amortization and deferred income taxes	4,887,390	4,227,415
	11,004,541	9,904,189
Net gain on purchase and redemption of scientific research debenture	582,000	—
Disposal of fixed assets	1,220,046	314,702
Decrease in investments	30,994	97,212
	12,837,581	10,316,103
Uses of Working Capital		
Purchase of fixed assets	11,859,025	8,460,837
Decrease in long-term liabilities	393,029	1,022,251
Dividends	1,071,066	1,071,066
Purchase of goodwill	192,817	—
Other	6,543	—
	13,522,480	10,554,154
(Decrease) in working capital	(684,899)	(238,051)
Working capital at beginning of year	3,451,796	3,689,847
Working capital at end of year	2,766,897	3,451,796

The Becker Milk Company Limited and Subsidiary Companies

Notes to Consolidated Financial Statements, April 30, 1985.

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accounts of the subsidiary companies have been included in the consolidation from the date of their acquisition.

Income Recognition

Income includes sales by company-owned stores and sales by the company to its franchisees.

Franchise fees are taken into income over the term of the franchise agreement.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined for processing and warehousing inventory on a first-in, first-out basis and for retail store inventories on a first-in, first-out basis applied by the retail-inventory method.

Depreciation and Amortization

Fixed assets are recorded at cost. Depreciation and amortization have been calculated on the basis of amortizing the depreciable properties over their estimated useful life as follows:

Buildings	— 2-1/2% straight-line
Leasehold improvements	— 10% straight-line
Automotive	— 30% diminishing balance
Store, production and office equipment	— 10% straight-line

Goodwill

Goodwill includes amounts arising from the excess of the purchase price of shares of subsidiaries over the fair value of net assets at date of acquisition and purchased goodwill.

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

Income Taxes

Income taxes are accounted for on the tax-allocation method, whereby income taxes are fully provided on reported earnings at current tax rates. Deferred income taxes result from the recognition of the income tax effect of timing differences in reporting transactions for financial and tax purposes.

2. INVENTORIES

	1985 \$	1984 \$
Processing and warehousing	1,308,684	1,487,160
Store	22,098,142	18,941,340
	23,406,826	20,428,500

The Becker Milk Company Limited and Subsidiary Companies

3. INVESTMENTS

	1985 \$	1984 \$
Affiliated company		
— shares at cost	51	51
— advances	43,692	56,655
Mortgages and loans receivable	108,943	127,032
	152,686	183,738
Less: Current portion	12,204	12,262
	140,482	171,476

Mortgages and loans receivable mature to 1989 with varying interest rates not exceeding 13%.

4. FIXED ASSETS

	1985 \$	1984 \$
Land	7,418,263	7,091,269
Buildings and leasehold improvements	27,290,555	23,235,725
Store, production, automotive and office equipment	44,593,567	39,443,055
Total fixed assets — at cost	79,302,385	69,770,049
Less: Accumulated depreciation and amortization	34,618,120	30,842,632
	44,684,265	38,927,417

5. OTHER

	1985 \$	1984 \$
Assets under construction	293,706	387,882
Goodwill — at amortized cost	880,601	789,325
	1,174,307	1,177,207

6. LONG TERM

	1985 \$	1984 \$
Bank loans	3,375,000	3,875,000
Deferred franchise income	220,833	196,257
Mortgages and loans payable	906,990	823,878
Deposits and sundry	454,694	452,300
	4,957,517	5,347,435
Less: Current portion	763,816	760,705
	4,193,701	4,586,730

The bank loan is unsecured with principal repayments of \$500,000 per annum. Mortgages and loans payable mature up to 1989 with varying interest rates not exceeding 16.75%. Principal payments due in the next four years are as follows:

1986	\$736,128
1987	128,591
1988	39,187
1989	3,084

The Becker Milk Company Limited and Subsidiary Companies

7. SHARE CAPITAL

Authorized

- 8,000 — \$6 cumulative Class A preference shares redeemable at the stated capital amount
- 2,459,250 — non-voting, non-cumulative, participating Class B special shares
- 640,750 — common shares

	1985 \$	1984 \$
Issued		
5,675 — Class A shares	567,500	567,500
1,187,610 — Class B shares	916,955	916,955
540,750 — common shares	288	288
	1,484,743	1,484,743

8. EXTRAORDINARY ITEM

During the year the company purchased and disposed of a Scientific Research Debenture resulting in a gain of \$782,000, net of a scientific research tax credit. The applicable income taxes amount to \$200,000.

9. LEASES

The total minimum rental liability under leases (excluding insurance, property taxes and certain other occupancy charges) for store locations, to the date of expiry or option, whichever occurs first amounts to \$35,545,277.

Future minimum lease payments required under these leases are as follows:

1986	\$7,803,014
1987	6,839,153
1988	5,678,751
1989	4,503,606
1990	3,459,406
later years	7,261,347

10. INCOME TAXES

The effective tax rate of 48.5% differs from the statutory combined rates due to the manufacturing and processing tax reduction, and a deduction from taxable income for the inventory allowance.

Auditors' Report

To the Shareholders of
The Becker Milk Company Limited
and Subsidiary Companies:

We have examined the consolidated balance sheet of The Becker Milk Company Limited and subsidiary companies as at April 30, 1985 and the consolidated statements of income, 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 April 30, 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 on a basis consistent with that of the preceding year.

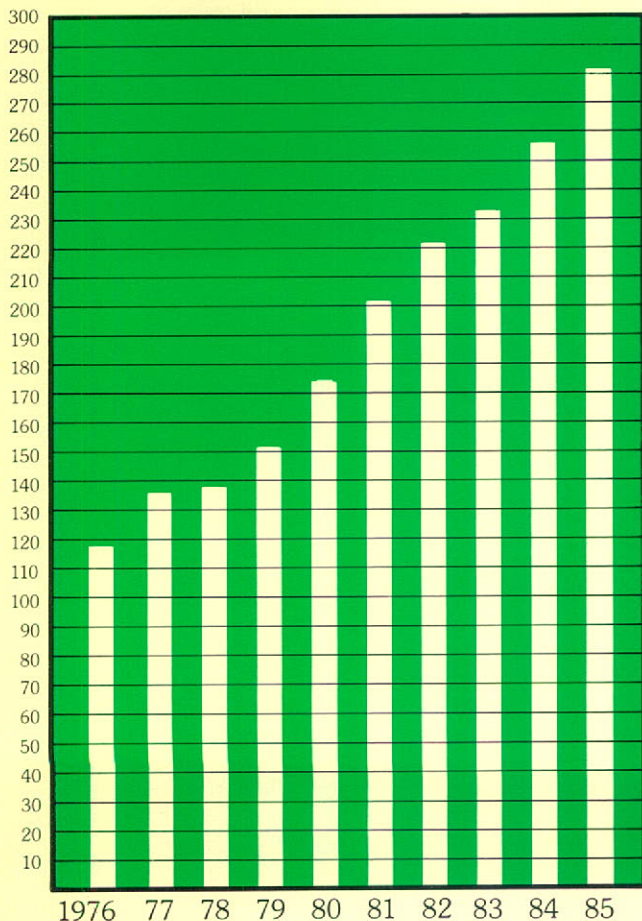
Langlois Hauck Lettner & Co.

LANGLOIS HAUCK LETTNER & CO.
Chartered Accountants

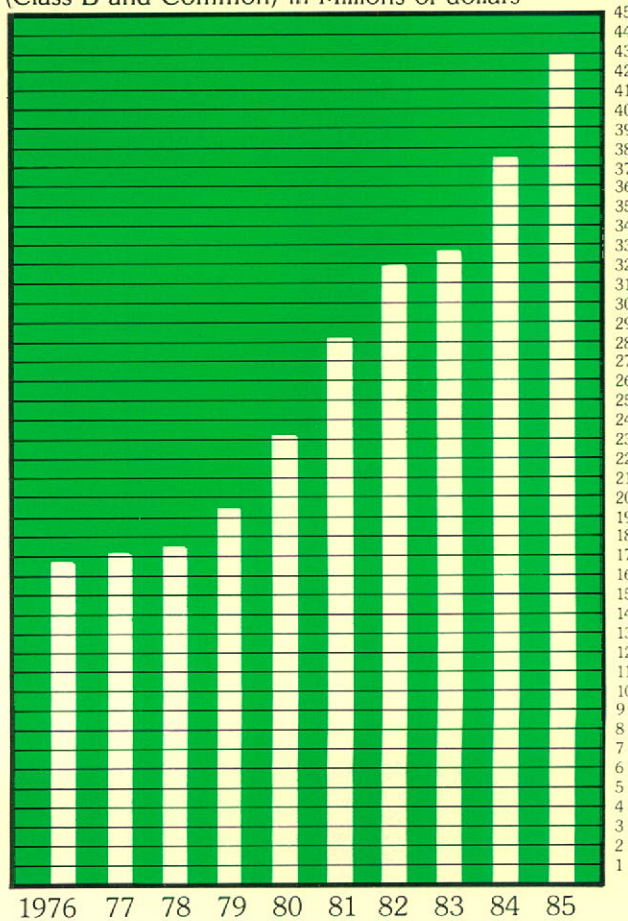
Toronto, Canada
July 4, 1985

Financial position

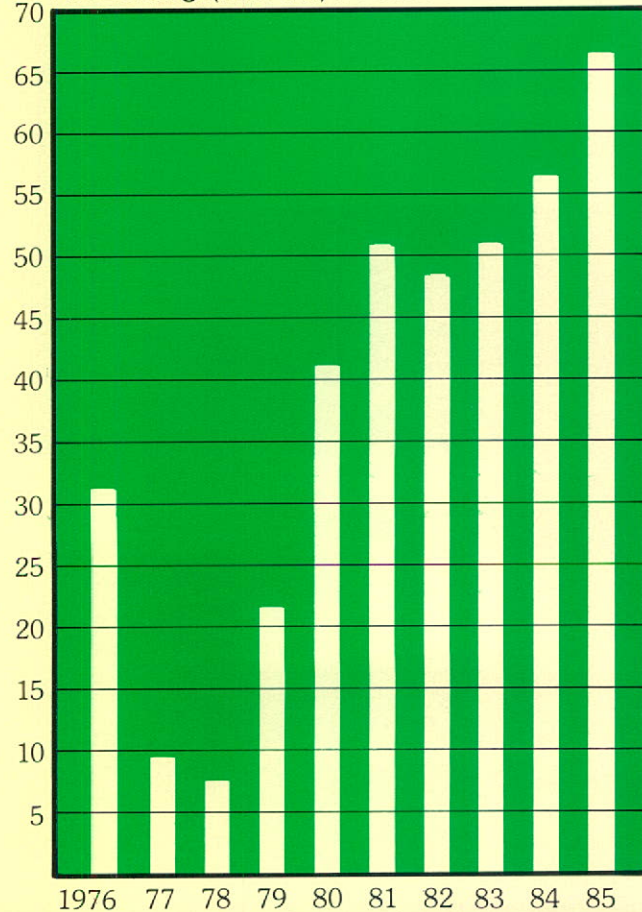
Total Sales in Millions of dollars



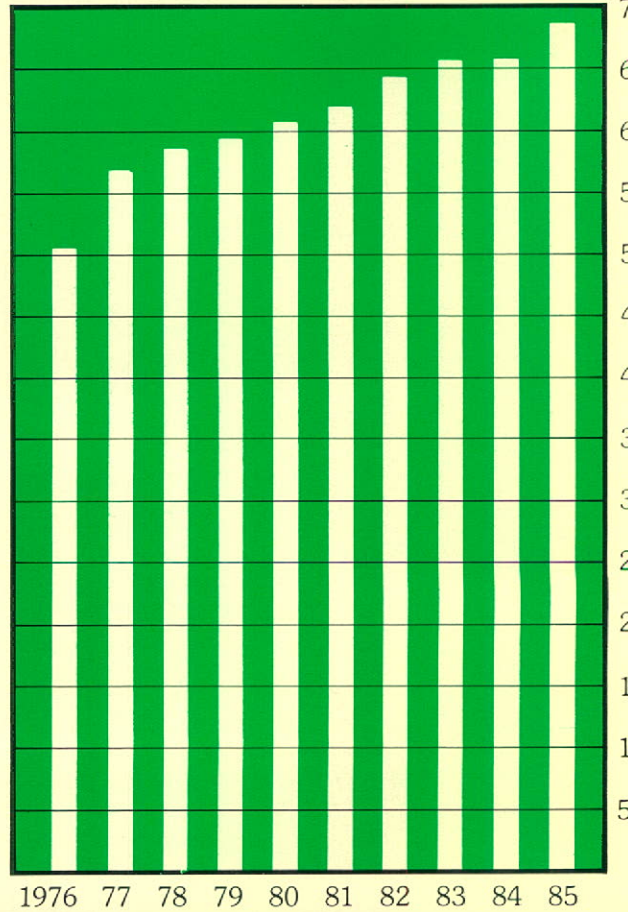
Shareholders' Equity
(Class B and Common) in Millions of dollars



Net Earnings (after tax) in Hundred Thousands of dollars



Number of Stores



The Becker Milk Company Limited
TEN YEARS OF
 Year ended

	1985 \$	1984 \$	1983 \$
Sales	283,084,979	257,226,204	233,113,251
Earnings before depreciation and amortization interest and taxes on income	17,406,529	15,817,938	14,774,537
Depreciation and amortization	4,994,667	4,405,779	4,182,473
Interest	526,711	558,053	815,294
Taxes on income	5,768,000	5,177,332	4,743,300
Net operating earnings	6,117,151	5,676,774	5,033,470
Shareholders' equity (Note 1)	43,217,655	37,589,570	32,983,862
Shares outstanding (Note 1)	1,728,360	1,728,360	1,728,360
Net earnings per class B and common share (Note 2)	3.86	3.26	2.89
No. of stores (at end of fiscal year)	681	653	653
Net fixed asset additions	10,638,979	8,146,135	3,732,737

Notes

1. Combined Class B and Common.
2. Net earnings per share have been adjusted to allow for the current year Class "A" preference dividend. Dividends on Class "A" Shares from January 1, 1985, to April 30, 1985 amounting to \$11,350 have not been declared and/or allowed in computing the shareholders' equity. For 1985 net earnings per share include extraordinary earnings.

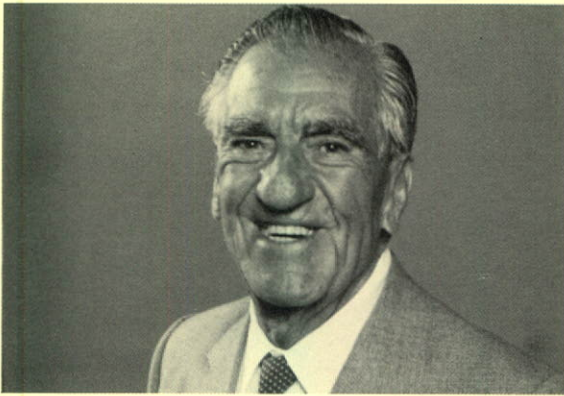
and Subsidiary Companies

PROGRESS

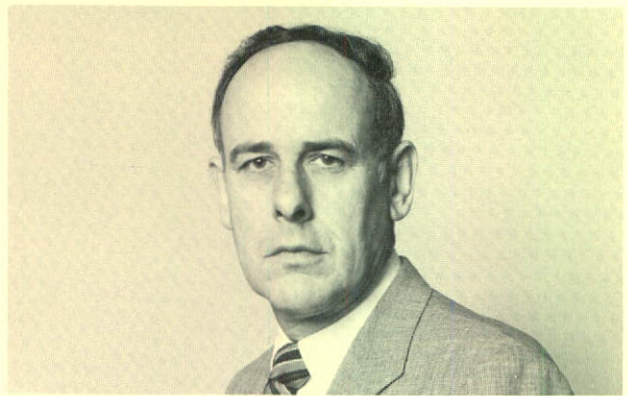
April 30

1982 \$	1981 \$	1980 \$	1979 \$	1978 \$	1977 \$	1976 \$
224,571,881	200,981,040	173,953,370	152,885,173	140,039,831	135,876,529	117,940,268
13,458,351	13,211,865	11,169,920	7,163,250	3,676,082	4,466,930	7,778,482
3,967,854	3,255,791	2,740,120	2,659,246	2,568,973	2,333,974	1,782,854
146,465	86,568	386,974	412,910	358,165	251,426	224,515
4,465,490	4,846,000	3,878,000	1,825,000	243,000	891,000	2,758,000
4,878,542	5,023,506	4,164,828	2,266,094	505,944	990,530	3,013,113
28,978,249	25,033,955	20,904,679	17,462,045	15,660,091	15,618,287	15,091,897
1,728,360	1,720,360	1,720,360	1,720,360	1,720,360	1,720,360	1,720,360
2.81	2.90	2.40	1.30	.27	.56	1.73
649	631	619	588	580	564	517
9,533,059	10,618,714	4,065,436	2,263,475	3,221,729	4,579,681	6,240,916

Directors and officers



Frank Bazos



Geoffrey W. J. Pottow



Robert Bazos



Robert W. Lowe



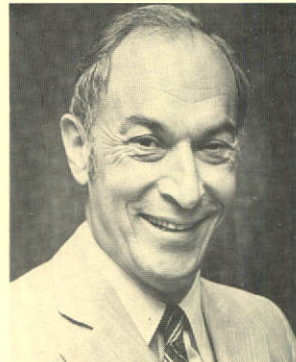
George Panos



R.J. Kane



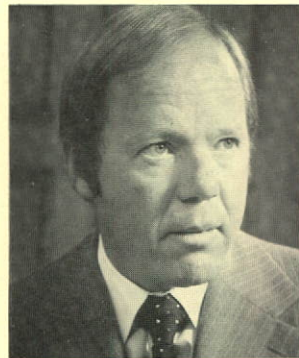
Arvi Magi



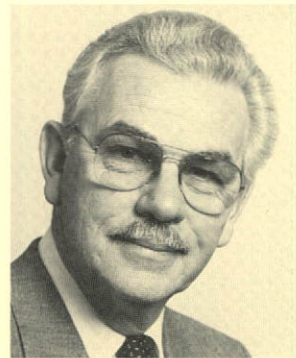
E. S. Miles



Harold Keene



R. S. Paddon



Lorne Smith

Board of Director

Frank A. Bazos
Chairman of the Board
The Becker Milk Company Limited

Robert Bazos
President
Perrette Dairy Limited

R.J. Kane
Executive

Robert W. Lowe
Vice-Chairman
The Becker Milk Company Limited

Arvi Magi
Executive Vice-President and
Secretary Treasurer
The Becker Milk Company Limited

E.S. Miles
Executive

R.S. Paddon
Queen's Counsel

George Panos
Vice-Chairman
The Becker Milk Company Limited

Geoffrey W. J. Pottow
President
The Becker Milk Company Limited

Officers

Frank A. Bazos
Chairman of the Board

Geoffrey W.J. Pottow
President

Robert Bazos
Vice-Chairman

Robert W. Lowe
Vice-Chairman

George Panos
Vice-Chairman

Arvi Magi
Executive Vice-President and
Secretary Treasurer

Harold Keene
Vice-President

Lorne Smith
Vice-President

Registrar and Transfer Agent
The Royal Trust
Company, Toronto and
Montreal

Auditors
Langlois Hauck Lettner & Co.
Toronto

Solicitors
Aird & Berlis

**Stock Exchange Listing
of Class "B" Shares**
Toronto Stock Exchange

Head office
671 Warden Avenue
Scarborough, Ontario,
Canada, M1L 3Z7

Becker Country

In each area on the map is shown the number of stores open in that area at the end of the 1985 and 1984 fiscal year.

