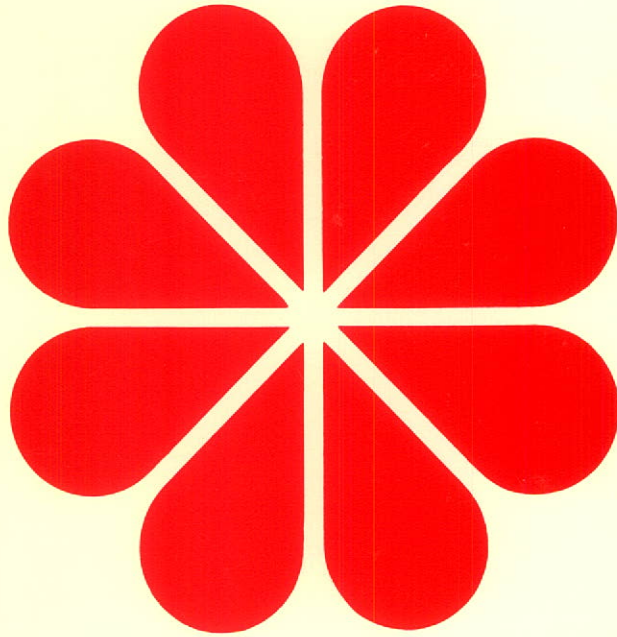


The Becker Milk Company Limited

Annual Report

Year ended April 30, 1986



Becker's[®]

**FRESH
& READY
FOODS**

HOWARD ROSS LIBRARY
OF MANAGEMENT
SEP 24 1986
MCGILL UNIVERSITY

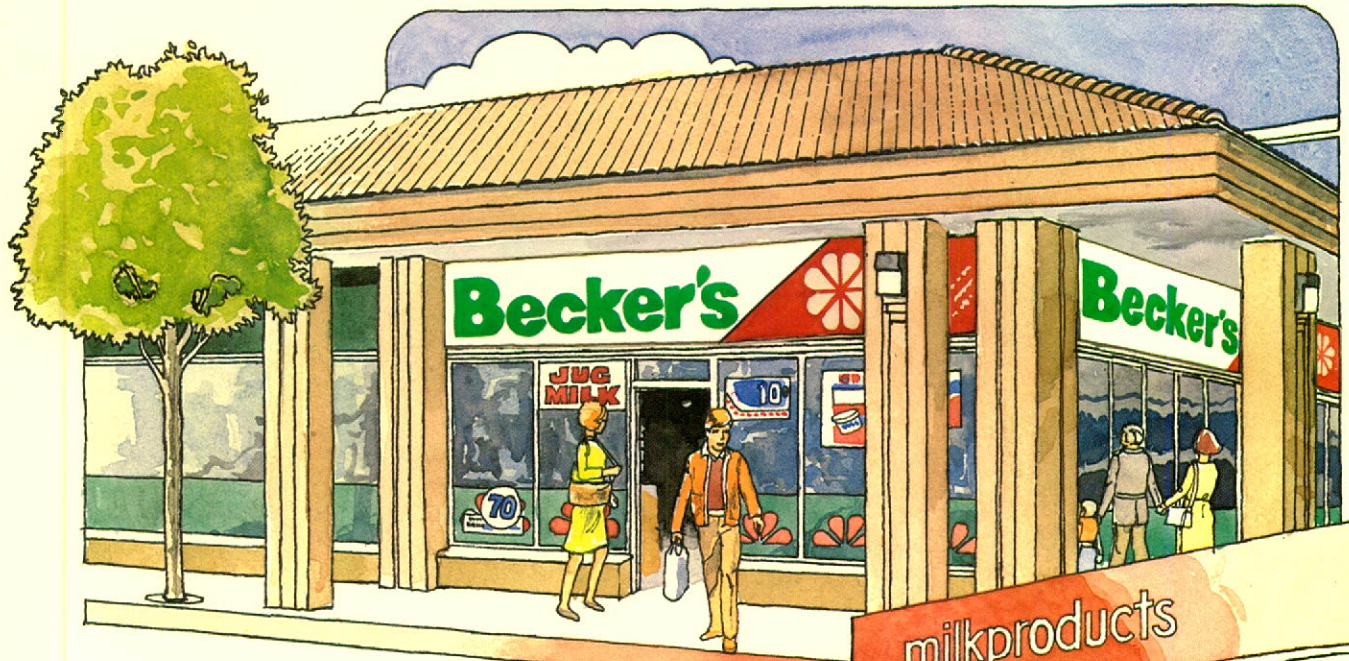
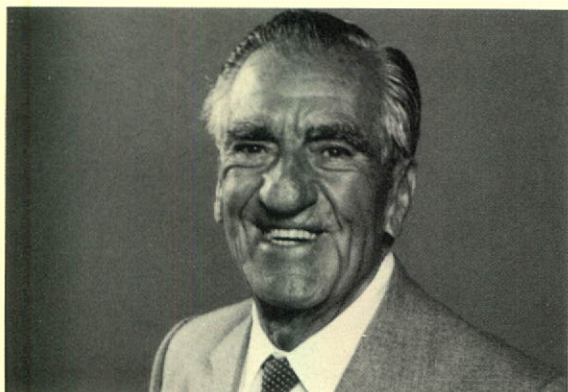


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Directors' report to the shareholders



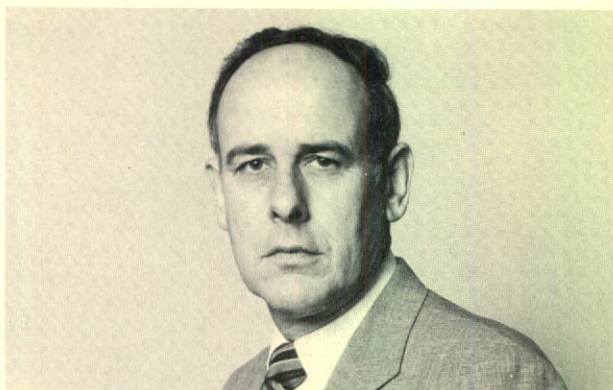
It is with pleasure we present, on behalf of the Board of Directors, this annual report, covering our operations for the twelve month period ended April 30, 1986.

We completed our twenty-ninth year showing excellent growth in sales, with a more moderate growth in the number of stores operated. The growth in net earnings was repressed by both increased taxation and competition and the earnings for 1986 did not quite reach the level of the record earnings of the previous year.

Sales volume for 1986 increased by almost 11% to \$312,958,537. This volume was achieved with a net gain of just 11 stores to the number of our outlets. This increase of less than 2% brought the number of our stores up to 692 as at April 30, 1986. The net operating earnings of \$5,550,560 showed a decrease of 9% from the operating earnings for 1985. The final results for 1985 had been further enhanced by an extraordinary gain for which there was no corresponding item for this year.

Our operating results clearly reflect the conditions under which we have been operating.

Some very significant changes had taken place within the food retailing industry only a short time before the end of our previous fiscal year. Two of the supermarket chains,



one of which, not too many years ago, was probably the most dominant one in our marketplace, disappeared from the scene, their business being taken over by two other supermarket operators or being converted into franchise operations.

In our report to the shareholders, submitted with our last years annual statements, we made the prediction that the then newly structured supermarket groups may actually cause the competition within the industry to be intensified.

This indeed has proven to be the case. The offering of the loss-leaders, particularly items such as milk, eggs, bread and ice cream, has continued unabated throughout the year.

The sale of selected grocery items, paper goods, of potato chips and soft drink cans, at cost prices or less, has also become a favourite promotional tool for traffic building for drug-store chains and for a number of junior department stores.

The price competition for some products has also continued to be further escalated by the manufacturers of such products as they have been embroiled in struggles of their own to gain market-share. This has been especially noticeable for milk and ice cream as well as for soft drinks.

The changes within the supermarket chains had also had a considerable effect

Directors' report to the shareholders

upon the dairy industry in Ontario. Some of the major processors, who had in the past traditionally marketed a large portion of their volume through various supermarket chains, suddenly found that some of these chains had now become the owners of their own dairy plants or that they were supplied by a newcomer in the marketplace.

This new plant had been set up by one of the supermarket chains which subsequently dropped out of food retailing. The modern facility they had placed into production has no doubt added significantly to the capacity of the dairy industry in Ontario.

The soft drink industry too has been involved in a long battle for market-share, fought with all-out price promotions as well as with extensive advertising campaigns. The outcome of this contest has been a further consolidation of the industry where now, in Ontario, 2 companies control over 90% of the soft drink volume.

It is yet to be seen if these developments will help to stabilize the retail prices for soft drinks or if the price competition will just continue as before.

The continued intensive competition has made profitable sales growth very difficult to achieve. The pressures on profit margins, combined with continued escalation of many operating costs, have made it even more important to continue to evaluate the profitability of individual locations critically and to close the stores which do not contribute to the overall profitability of the chain.

The result, in the past year, was that only a net of eleven stores were added to our operations, although over thirty new stores were actually commissioned.

It is most gratifying that, despite this, we were able to increase our sales by over 10% and that this gain was brought about with only a small reduction in the overall profit margins. The largest effect on the earnings

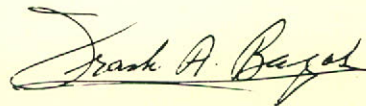
was actually in the fourth quarter which was further affected by adverse weather conditions as well as our own, more extensive, milk price promotions.

We now have our returnable jug milk in production in both the 4 litre size and in the new 2 litre jug. Both of these jugs are only used once for milk and are then returned to us for recycling. This jug is not only a very practical and easy to handle container, it is also a most sound idea ecologically. The addition to our production facilities, enabling us now to produce and fill 2 litre jugs, was also made during this past year. It was prompted by the continuing trend towards smaller family units. We felt that our customers should have the choice of our ecology oriented packaging in the smaller size also.

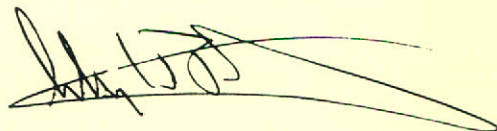
Business conditions have been intensely competitive for us for many years now and they appear to continue this way, yet we are looking forward to a new year with optimism. With the continued support of our employees, associates and suppliers we will be able to serve our customers in such a manner as to keep their acceptance of our stores and our products.

We are confident that the new year will again provide us with new progress and achievement.

Sincerely,



Chairman of the Board



President

July 16, 1986

Highlights of the year

	Year Ended April 30		
	1986 \$	1985 \$	Percentage Change
Sales	312,958,537	283,084,979	10.6
Operating earnings	17,463,329	17,406,529	0.3
Earnings before extraordinary item	5,550,560	6,117,151	(9.3)
Net earnings	5,550,560	6,699,151	(17.2)
Earnings per share			
Before extraordinary item	3.19	3.52	(9.3)
After extraordinary item	3.19	3.86	(17.2)
Long-term debt	5,078,630	4,060,129	19.5
Shareholders' equity	47,270,842	43,785,155	8.0
Shares outstanding — Class A	5,675	5,675	—
— Class B	1,187,610	1,187,610	—
— Common	540,750	540,750	—
Number of Stores	692	681	1.6

The Becker Milk Company Limited and Subsidiary Companies

Consolidated Statement of Retained Earnings Year ended April 30, 1986

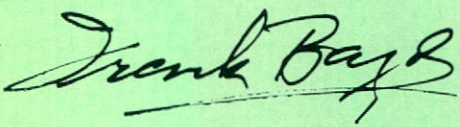

	1986 \$	1985 \$
Balance at beginning of year	42,300,412	36,672,327
Net income	5,550,560	6,699,151
	47,850,972	43,371,478
Dividends — class A preference shares	34,050	34,050
— class B special shares	1,395,442	712,566
— common shares	635,381	324,450
	2,064,873	1,071,066
Balance at end of year	45,786,099	42,300,412

Consolidated Statement of Income Year ended April 30, 1986

	1986 \$	1985 \$
Sales	312,958,537	283,084,979
Income before depreciation and amortization, interest charges and taxes on income	17,463,329	17,406,529
Depreciation and amortization	5,701,318	4,994,667
Interest charges on long-term debt	834,451	526,711
	6,535,769	5,521,378
Income before income taxes and extraordinary item	10,927,560	11,885,151
Taxes (recoverable) on income — Note 9		
Current	5,233,000	5,965,000
Deferred	144,000	(197,000)
	5,377,000	5,768,000
Income before extraordinary item	5,550,560	6,117,151
Extraordinary item	—	582,000
Net income	5,550,560	6,699,151
Earnings per class B and common shares		
Before extraordinary item	3.19	3.52
After extraordinary item	3.19	3.86

The Becker Milk Company Limited and Subsidiary Companies

Consolidated Balance Sheet April 30, 1986

ASSETS	1986 \$	1985 \$
Current		
Cash	68,550	65,500
Accounts receivable	2,757,967	2,517,125
Inventories — Note 2	27,924,195	23,406,826
Corporation income tax refund	872,827	3,981,411
Prepaid expenses and deposits	457,994	675,631
Investments — current portion — Note 3	140,029	12,204
	<u>32,221,562</u>	<u>30,658,697</u>
Investments — Note 3	<u>118,625</u>	<u>140,482</u>
Fixed — Note 4	<u>48,493,094</u>	<u>44,684,265</u>
Other — Note 5	<u>905,377</u>	<u>1,174,307</u>
Approved by the Board:		
Director 		
Director 		
	<u>81,738,658</u>	<u>76,657,751</u>

The Becker Milk Company Limited and Subsidiary Companies

Consolidated Balance Sheet April 30, 1986

LIABILITIES	1986 \$	1985 \$
Current		
Bank indebtedness	8,383,920	7,320,128
Accounts payable and accrued charges	17,411,615	19,289,348
Dividends payable	1,512,315	518,508
Long term — current portion — Note 6	1,042,986	763,816
	28,350,836	27,891,800
Long term — Note 6	5,185,885	4,193,701
Deferred Income Taxes	931,095	787,095
	34,467,816	32,872,596
SHAREHOLDERS' EQUITY		
Share Capital — Note 7	1,484,743	1,484,743
Retained Earnings	45,786,099	42,300,412
	47,270,842	43,785,155
	81,738,658	76,657,751

The Becker Milk Company Limited and Subsidiary Companies

Consolidated Statement of Changes in Financial Position Year ended April 30, 1986

	1986 \$	1985 \$
Sources of Working Capital		
Operations		
Income before extraordinary item	5,550,560	6,117,151
Items not affecting working capital		
Depreciation, amortization and deferred income taxes	5,519,970	4,887,390
	11,070,530	11,004,541
Net gain on purchase and redemption of scientific research debenture	—	582,000
Disposal of fixed assets	939,773	1,220,046
Increase (decrease) in long-term liabilities	992,184	(393,029)
Decrease in investments	21,857	30,994
	13,024,344	12,444,552
Uses of Working Capital		
Purchase of fixed assets	9,852,963	11,859,025
Dividends	2,064,873	1,071,066
Purchase of goodwill	—	192,817
Other	2,679	6,543
	11,920,515	13,129,451
Increase (decrease) in working capital	1,103,829	(684,899)
Working capital at beginning of year	2,766,897	3,451,796
Working capital at end of year	3,870,726	2,766,897

The Becker Milk Company Limited and Subsidiary Companies

Notes to Consolidated Financial Statements, April 30, 1986.

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

	1986 \$	1985 \$
Processing and warehousing	1,386,411	1,308,684
Store	26,537,784	22,098,142
	27,924,195	23,406,826

The Becker Milk Company Limited and Subsidiary Companies

3. INVESTMENTS

	1986 \$	1985 \$
Affiliated company		
— shares at cost	51	51
— advances	77,890	43,692
Mortgages and loans receivable	180,713	108,943
	258,654	152,686
Less: Current portion	140,029	12,204
	118,625	140,482

Mortgages and loans receivable mature to 1989 with varying interest rates.

4. FIXED ASSETS

	1986 \$	1985 \$
Land	7,789,597	7,418,263
Buildings and leasehold improvements	30,450,302	27,290,555
Store, production, automotive and office equipment	50,142,213	44,593,567
Total fixed assets — at cost	88,382,112	79,302,385
Less: Accumulated depreciation and amortization	39,889,018	34,618,120
	48,493,094	44,684,265

5. OTHER

	1986 \$	1985 \$
Assets under construction	128,905	293,706
Goodwill — at amortized cost	776,472	880,601
	905,377	1,174,307

6. LONG TERM

	1986 \$	1985 \$
Bank loans	4,875,000	3,375,000
Deferred franchise income	187,272	220,833
Mortgages and loans payable	689,005	906,990
Deposits and sundry	477,594	454,694
	6,228,871	4,957,517
Less: Current portion	1,042,986	763,816
	5,185,885	4,193,701

The bank loan is unsecured with principal repayments of \$700,000 per annum. Mortgages and loans payable mature up to 1996 with varying interest rates. Principal payments due in the next five years are as follows:

1987	\$262,969
1988	45,383
1989	209,866
1990	4,596
1991	5,019

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

	1986 \$	1985 \$
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. LEASES

The total minimum rental liability under leases for store locations (excluding insurance, property taxes and certain other occupancy charges) and for computer equipment to the date of expiry or option, whichever occurs first, amounts to \$47,821,000.

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

1987	\$10,306,043
1988	8,938,103
1989	7,403,195
1990	5,983,972
1991	4,410,225
later years	10,779,462

9. INCOME TAXES

The effective tax rate of 49.2% 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, 1986 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, 1986 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.

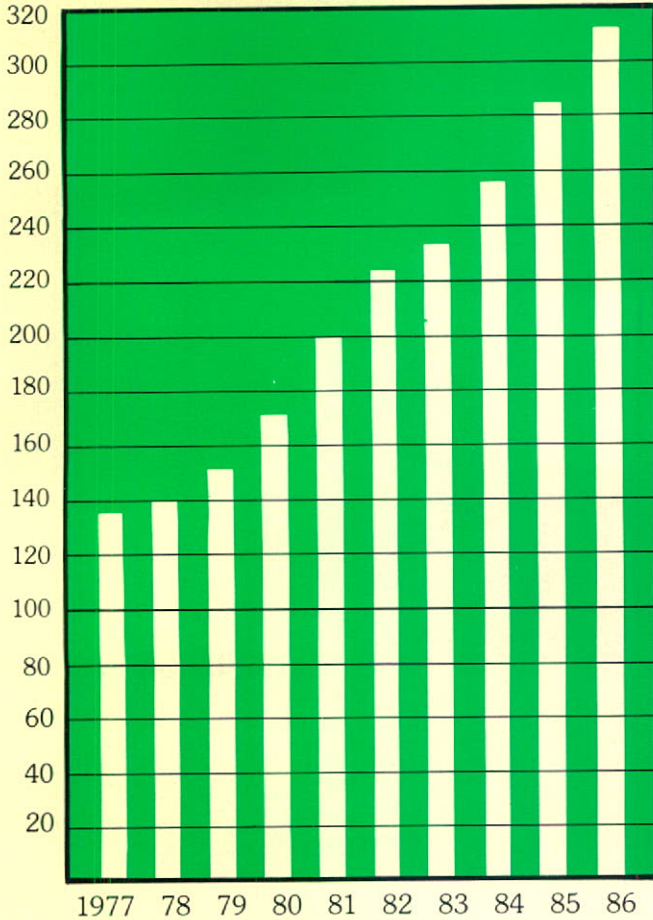
Langlois Hauck Lethbrun & Co.

Auditors

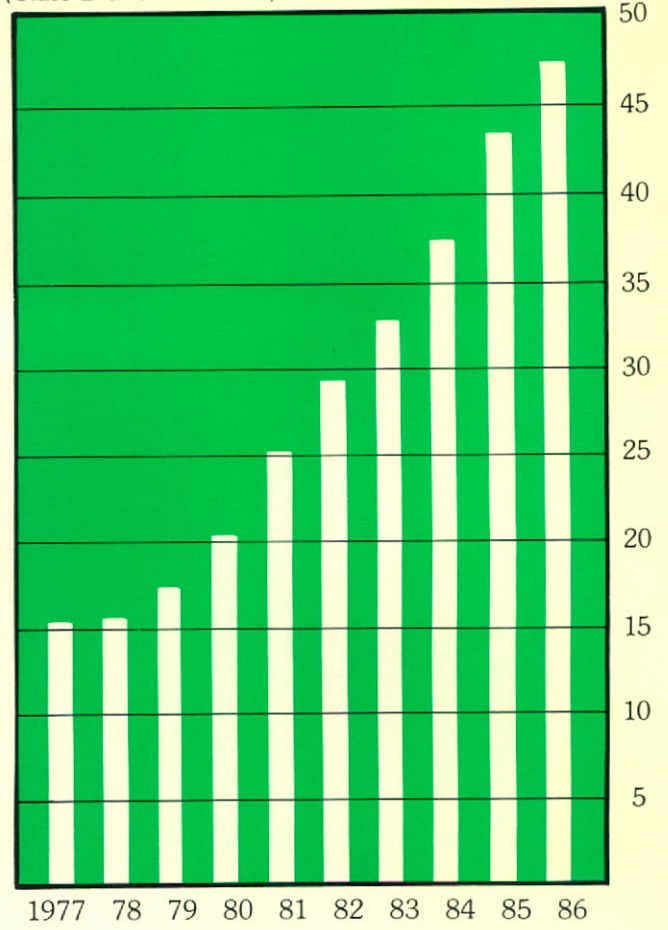
July 4, 1986

Financial position

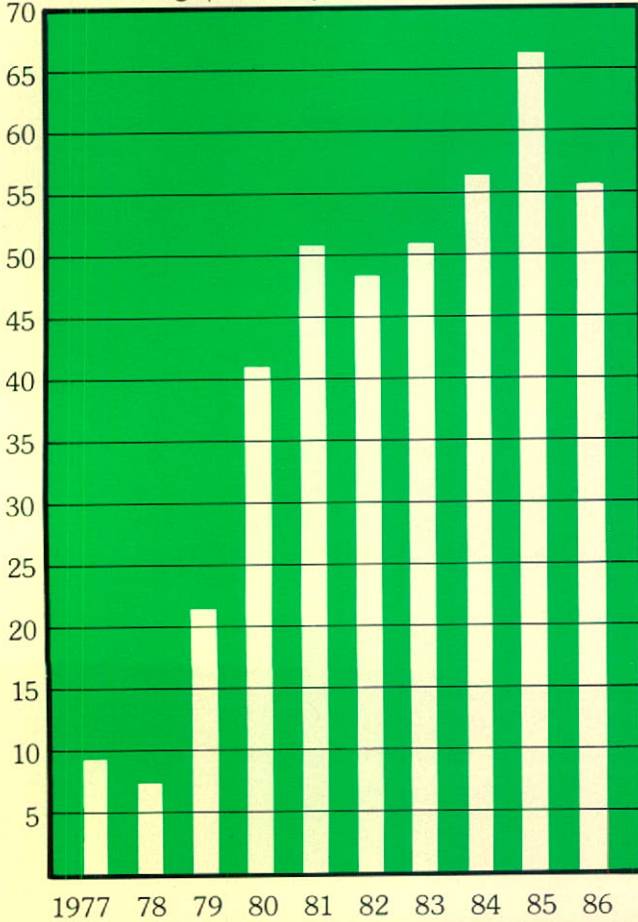
Total Sales in Millions of dollars



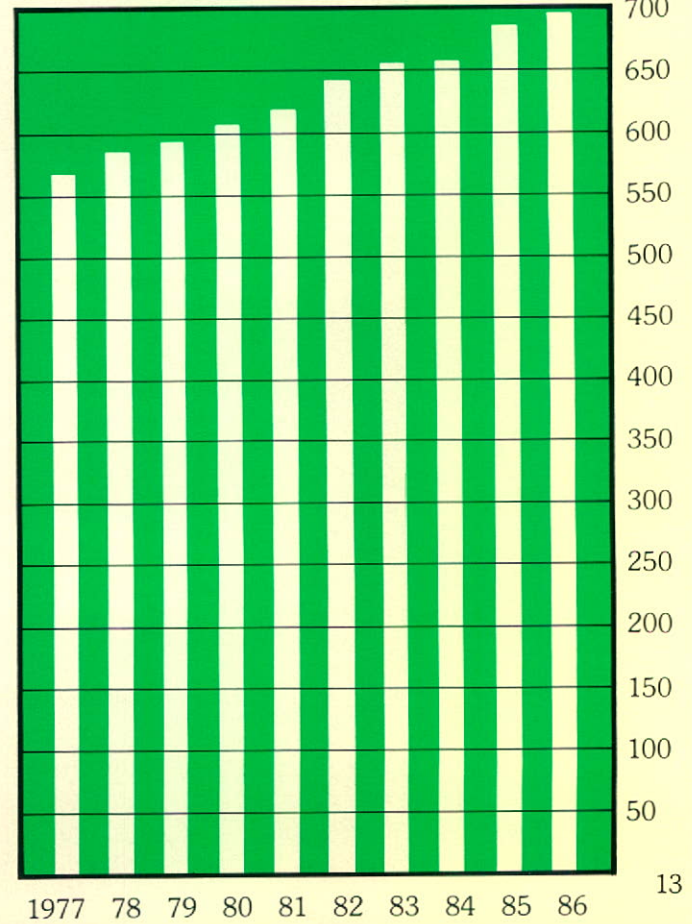
Shareholders' Equity
(Class B and Common) in Millions of dollars



Net Earnings (after tax) in Hundred Thousands of dollars



Number of Stores



The Becker Milk Company Limited
TEN YEARS OF
 Year ended

	1986 \$	1985 \$	1984 \$
Sales	312,958,537	283,084,979	257,226,204
Earnings before depreciation and amortization, interest and taxes on income	17,463,329	17,406,529	15,817,938
Depreciation and amortization	5,701,318	4,994,667	4,405,779
Interest	834,451	526,711	558,053
Taxes on income	5,377,000	5,768,000	5,177,332
Net operating earnings	5,550,560	6,117,151	5,676,774
Shareholders' equity (Note 1)	46,703,342	43,217,655	37,589,570
Shares outstanding (Note 1)	1,728,360	1,728,360	1,728,360
Net earnings per class B and common share (Note 2)	3.19	3.86	3.26
No. of stores (at end of fiscal year)	692	681	653
Net fixed asset additions	8,913,190	10,638,979	8,146,135

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, 1986, to April 30, 1986 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.

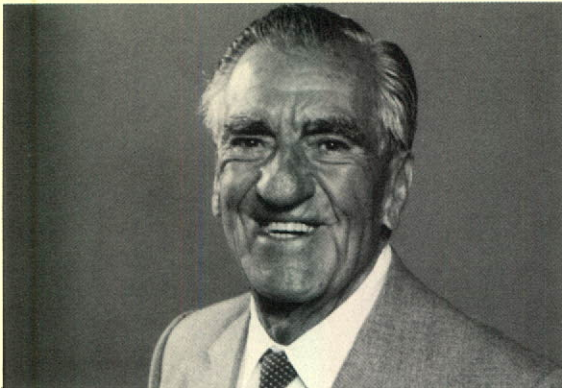
and Subsidiary Companies

PROGRESS

April 30

1983 \$	1982 \$	1981 \$	1980 \$	1979 \$	1978 \$	1977 \$
233,113,251	224,571,881	200,981,040	173,953,370	152,885,173	140,039,831	135,876,529
14,774,537	13,458,351	13,211,865	11,169,920	7,163,250	3,676,082	4,466,930
4,182,473	3,967,854	3,255,791	2,740,120	2,659,246	2,568,973	2,333,974
815,294	146,465	86,568	386,974	412,910	358,165	251,426
4,743,300	4,465,490	4,846,000	3,878,000	1,825,000	243,000	891,000
5,033,470	4,878,542	5,023,506	4,164,828	2,266,094	505,944	990,530
32,983,862	28,978,249	25,033,955	20,904,679	17,462,045	15,660,091	15,618,287
1,728,360	1,728,360	1,720,360	1,720,360	1,720,360	1,720,360	1,720,360
2.89	2.81	2.90	2.40	1.30	.27	.56
653	649	631	619	588	580	564
3,732,737	9,533,059	10,618,714	4,065,436	2,263,475	3,221,729	4,579,681

Directors and officers



Frank Bazos



Geoffrey W. J. Pottow



Robert Bazos



Robert W. Lowe



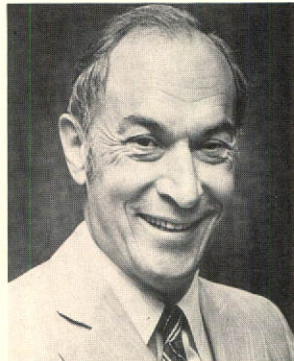
George Panos



R.J. Kane



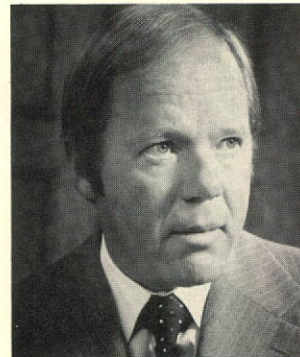
Arvi Magi



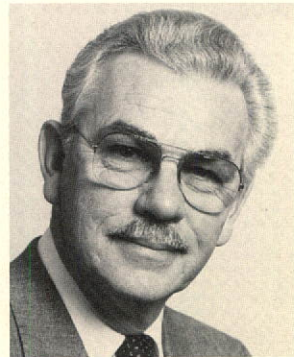
E. S. Miles



Harold Keene



R. S. Paddon



Lorne Smith

Board of Directors

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
Honourary 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
Honourary 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 1986 and 1985 fiscal year.

