Algonquin

Algonquin Mercantile Corporation
1986 Annual Report

THE COMPANY

Algonquin Mercantile Corporation is a diversified Canadian public company engaged directly or through subsidiaries in the retailing of drugs and related products; the wholesaling, packaging, and distribution of fresh fruits and vegetables; the manufacturing of industrial piping products; and limited merchant banking activities. More than 1,800 people are employed at locations across Canada which include seven main plants and wholesale distribution centres, nine company-owned retail drug stores, and 117 pharmacy, health, and beauty aid outlets operated under license in Woolco/Woolworth department stores. The company has extensive real estate holdings and maintains a varied investment portfolio. Shares of the company are listed on the Toronto Stock Exchange.

FINANCIAL HIGHLIGHTS

	1986	1985	1984
Operating Results	$	$	$
Sales from continuing operations	199,886,522	198,341,369	180,330,509
Earnings from continuing operations	1,627,932	1,985,570	2,714,376
Earnings before extraordinary items	1,148,683	1,817,656	2,398,553
Net earnings	1,285,659	1,627,718	2,508,184
Per Share			
Earnings from continuing operations	2.84	3.45	4.69
Earnings before extraordinary items	2.00	3.16	4.15
Net earnings	2.24	2.83	4.34
Dividends	.60	.60	.60
Shareholders' equity	34.95	33.30	31.08

The Annual Meeting of Shareholders will be held in the Alberta Room, Main Mezzanine Floor, Royal York Hotel, 100 Front Street West, Toronto, Ontario on June 24, 1986 at 11:15 in the morning.

REPORT TO SHAREHOLDERS

The 1986 fiscal year was a year of change and consolidation for Algonquin Mercantile Corporation.

Two major corporate transactions were completed with significant effect on the Company's financial statements.

(i) On December 12, 1985, Algonquin's shareholding in Hardee Farms International Ltd. was reduced from 60% to 20% following completion of a share exchange agreement whereby Hardee acquired all of the outstanding shares of Cobi Foods Inc. As a result Algonquin ceased to consolidate the accounts of Hardee and at fiscal year end carried its investment in 3,022,499 shares of Hardee (now Cobi Foods Inc.) at a value of $1.15 per share.

The new Cobi Foods Inc. will be well financed as a 67% controlled subsidiary of Minas Group Limited of Hantsport, Nova Scotia, and commences operations with sales volume more than three times higher than Hardee alone previously enjoyed. Economies of scale and a stronger marketing base for branded seasonal processed food products (Stokely, Avon, Graves, Fraser Vale, Hardee, Honeydew, etc.) should benefit Algonquin's 20% share investment in Cobi Foods Inc.

(ii) Effective March 31, 1986 the operations of the Wesston Appliances Division were discontinued when its assets were sold. The sale of assets of the Wesston Appliances Division relieves Algonquin of the operating and financial burdens related to continued participation in an industry which maintains chronically inadequate gross profit margins.

Algonquin's balance sheet and future earnings outlook will be materially strengthened as a result of these changes.

Earnings per share from continuing operations for the 1986 year were $2.84 compared with $3.45 in the previous year. After accounting for losses on discontinued operations and extraordinary items, final net earnings per share amounted to $2.24 for 1986 against $2.83 for the 1985 fiscal year.

The book value of shareholder equity at year end rose to $34.95 per share by comparison with $33.30 per share at March 31, 1985.

Consolidated sales volume from continuing operations for the year increased only marginally to $199,886,522 reflecting reduced volume in food wholesaling operations and sales levels which were lower than expected over the important Christmas season in the retail drug division. In consequence, retail drug inventories were higher than had been anticipated over that subsidiary's January 31 fiscal year end. Purchasing and other adjustments have since been made to achieve appropriate balances in inventory levels.

Under a joint venture owned equally between Jack Austin Drugs Limited and Grafton-Fraser Inc., a wholly-owned subsidiary of Grafton Group Limited, the operations of Phar Mor Super Stores Inc. were launched in December 1985 with the opening of a 20,000 sq. ft. super drug store in leased premises on Erin Mills Parkway in Mississauga. In addition to pharmacy, health and beauty aids, household products and other merchandise usually carried in large drug stores, Phar Mor also features women's, men's, children's and infant's wear, bath and bedroom products and non-perishable foods. Everyday prices are highly competitive and well known name brand products are featured through frequent flyer distributions to households in the immediate trading area. The first Phar Mor store is expected to reach planned sales levels by mid-1986 and a second location is scheduled to open in early fall.

Algonquin continues to be interested in investment and merchant banking activities. During the year the company assisted Network Data Systems Ltd. in bringing to the market launch stage an electronic word processing work station, the TexCom 2400, which has been certified by Bell Canada as a qualified Teletex terminal. Teletex is a new standard of communications which is nearly 50 times faster than Telex and is rapidly replacing Telex in Europe and other parts of the world. The TexCom 2400 also provides Telex compatibility and ASCII communications. Network Data's management believes that no other Teletex terminal provides all three communications protocols. Algonquin expects to participate shortly in a planned public offering of Network Data shares.

As an element of a secured loan agreement Algonquin has also acquired a 10% share interest in an electronic components distribution business specializing in the semiconductor segment of the marketplace. Results of the business to date have been encouraging and give support to that company's stated objective of becoming the largest and most respected Canadian distributor in its field.

Several promising acquisitions and investment opportunities which would materially expand and diversify Algonquin's established areas of interest are currently under review.

Highlights of major operating divisions of the Company for the past year are as follows:

AUSTIN DRUGS DIVISION

Woolco Licensee Operations

This Division under license agreements operates retail pharmacy, health, and beauty aid departments in a total of 117 Woolco and Woolworth stores across Canada from Quebec to British Columbia.

Sales increased by 4% for the year after strong gains in the first six months followed by disappointing levels during the third and fourth quarters. Results of this segment of the business have eroded from previously established levels over the past two years reflecting competitive margin pressures from discounters and government intervention in prescription dispensing fees and related revenues.

Various aspects of these issues are presently undergoing careful review as management seeks to re-establish longer term performance objectives within cost levels appropriate to changed market conditions. Improved results are anticipated in the current year.

Jasco Drug Marts

Two new Jasco stores were opened during the year bringing the total number of freestanding drug stores to nine at year end.

Sales through Jasco outlets increased by 21% during the year and operating results improved significantly over those previously attained. The Company continues to focus expansion plans for this increasingly important segment of the business on the acquisition of existing stores in established locations.

Home Health Care and Convalescent Aids

Progress in this recently established division shows encouraging promise for the future. With combined cost increases in hospital and other public health care facilities there has been an increasing need for home health care services to meet rising demand.

Current plans call for opening nine new Home Health Care Convalescent Aid units in Woolco and Jasco stores during the year bringing to fifteen the total number of such units in operation.

Priority status has been assigned to continued development of this part of the Austin business and further expansion of facilities and outlets is contemplated.

DOMINION CITRUS DIVISION

Ontario Food Terminal

Operations of the fruit and produce wholesaling division were impacted during the year when both Dominion Stores and Safeway discontinued most of their Ontario grocery retailing operations. Wholesale sales volume for Dominion Citrus was curtailed by approximately 8% and operating results were reduced accordingly.

Appropriate staff and other changes were instituted and our Ontario Food Terminal Division continues to be one of the largest and strongest wholesalers of imported fruit and vegetables in Canada. Results to date in the current year are encouraging.

Skrow's Produce

Sales of the Skrow's food service arm of our food distribution business increased by 18% during the past year and further volume growth continues in the current year. Operating results have also shown good improvement over previous years.

An aggressive program of expansion and cost control is presently being followed as Skrow's takes advantage of the well established trend toward increased food consumption in restaurants, fast food outlets, and other settings outside the home.

Dominion Farm Produce

Sales and earnings from Dominion's fresh vegetable grading and packaging operations were again satisfactory. With the addition of approximately 10,000 sq. ft. to the Company's Bradford production and storage facilities further growth is being accommodated.

This segment of the business has established a broad customer base and enjoys excellent relations throughout the trade. The outlook for Dominion Farms and its "Country Fresh" brands is encouraging.

Country Fresh Packaging

Sales volume and operating results of this Division for the past year were disappointing. This in part reflects the chain store closures mentioned above and to a lesser degree reflects a trend toward increased bulk merchandising of fresh produce by some grocery retailers. The Company is seeking to solidify its role as a service produce packer to major retail chains by negotiating improved contractual arrangements for the services it renders.

MANUFACTURING DIVISION

Coupco

This Division manufactures and distributes a complete range of grooved end and threaded pipe couplings, fittings, valves, and pipe hangers across Canada servicing the industrial plumbing, heating, air conditioning, fire protection, construction, and mining industries.

Integration of the Ward threaded product line with Coupco's own grooved range of products was completed during the past year with excellent results. Operating performance achieved higher levels than those attained for several years and outlook for the current year is favourable as industrial and construction activity levels remain high.

SUMMARY

The outlook for 1986/87 is positive. With Algonquin's sound financial position the future is promising.

We acknowledge that Algonquin's success as a Company is dependent upon the abilities and efforts of our people, the loyalty of our suppliers and the goodwill of our customers. Their efforts and commitment are appreciated and we anticipate the future with full confidence that together we have the ability to meet the challenges it holds.

Respectfully, on behalf of the Board,

Cecil H. Franklin
Chairman and Chief Executive Officer

Arthur W. Walker
President and Chief Operating Officer

May 22, 1986
Toronto, Ontario

CONSOLIDATED

as at

ASSETS

	1986	1985
	$	$
CURRENT ASSETS		
Accounts receivable	12,380,192	17,621,858
Inventories	43,799,400	56,370,145
Income taxes recoverable	1,010,160	1,309,841
Prepaid expenses	362,516	806,265
Current portion of mortgages and loans receivable	877,269	971,560
	58,429,537	77,079,669
INVESTMENTS (note 3)	4,947,418	1,427,401
MORTGAGES AND LOANS RECEIVABLE (note 4)	5,026,071	2,965,116
FIXED ASSETS (note 5)	6,147,107	14,235,466
OTHER ASSETS (note 6)	1,125,658	2,049,301
	75,675,791	97,756,953

C. W. Franklin
Director

E. R. S. McLaughlin
Director

ntile Corporation

BALANCE SHEET

March 31, 1986

	1986	1985
LIABILITIES	$	$
CURRENT LIABILITIES		
Bank advances (note 7)	21,546,282	25,809,487
Accounts payable and accrued liabilities	26,216,038	31,628,542
Current portion of long-term debt	1,283,932	2,364,659
	49,046,252	59,802,688
LONG-TERM DEBT (note 8)	6,611,505	15,699,015
DEFERRED REVENUE	—	228,571
DEFERRED INCOME TAXES	—	869,000
MINORITY INTEREST IN HARDEE FARMS INTERNATIONAL LTD.	—	1,992,206
	55,657,757	78,591,480
CONTINGENCY (note 13)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 9)		
Authorized —		
853,423 5¢ Class A, non-voting, non-cumulative participating preference shares		
500,000 common shares		
Issued and fully paid —		
128,583 (1985 — 131,333) Class A preference shares	749,559	765,590
444,238 common shares	1,970,520	1,970,520
	2,720,079	2,736,110
RETAINED EARNINGS	17,297,955	16,429,363
	20,018,034	19,165,473
	75,675,791	97,756,953

CONSOLIDATED STATEMENT OF EARNINGS

For the Year Ended March 31, 1986

	1986	1985
	$	$
Continuing Operations		
Sales	199,886,522	198,341,369
Cost of Sales and Other Expenses	194,544,399	191,628,779
Depreciation	1,330,578	1,369,921
	195,874,977	192,998,700
	4,011,545	5,342,669
Other Income (note 10)	767,930	523,116
Earnings From Operations Before Interest	4,779,475	5,865,785
Interest — (note 8)	3,017,543	3,251,215
Earnings From Operations Before Income Taxes	1,761,932	2,614,570
Provision for (Recovery of) Income Taxes (note 11)		
Current	323,000	869,000
Deferred	(189,000)	(240,000)
	134,000	629,000
Earnings from Continuing Operations	1,627,932	1,985,570
(Loss) from Discontinued Operations (note 2)	(479,249)	(167,914)
Earnings for the Year Before Extraordinary Items	1,148,683	1,817,656
Extraordinary Items (note 12)	136,976	(189,938)
Net Earnings for the Year	1,285,659	1,627,718
Per Share:		
Earnings from continuing operations	$2.84	$3.45
Earnings before extraordinary items	$2.00	$3.16
Net earnings for the year	$2.24	$2.83

NOTE:
The earnings per share have been calculated for 1986 on 573,703 shares and for 1985 on 575,889 shares. The Class A preference shares have been treated as common shares for the purposes of the calculation.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended March 31, 1986

	1986	1985
	$	$
Retained Earnings — Beginning of Year		
As previously reported	16,739,286	15,457,442
Prior period adjustment (note 9)	309,923	277,911
As restated	16,429,363	15,179,531
Excess of cost of shares repurchased over paid-up capital (note 9)	72,872	32,012
	16,356,491	15,147,519
Net earnings for the year	1,285,659	1,627,718
	17,642,150	16,775,237
Dividends	344,195	345,874
Retained Earnings — End of Year	17,297,955	16,429,363

CONSOLIDATED STATEMENT OF CASH FLOW

For the Year Ended March 31, 1986

	1986	1985
	$	$
Operations		
Earnings for the year before extraordinary items	1,148,683	1,817,656
Depreciation and other items not requiring an outlay of cash	549,967	1,899,613
Cash provided from operations	1,698,650	3,717,269
Cash generated from (invested in) operating working capital	353,045	(7,029,756)
Reduction of income taxes arising from utilization of prior years' losses	290,000	80,000
Loss on closure of plant	(477,928)	(900,000)
	1,863,767	(4,132,487)
Investments		
Reduction in mortgages receivable	907,882	1,372,301
Proceeds on disposal of investments	2,683,991	989,953
Purchase of investments	(2,474,987)	(815,313)
Purchase of minority interest shares in subsidiary	(21,164)	(52,879)
Proceeds on disposal of fixed and other assets	369,474	592,067
Purchase of fixed and other assets	(1,932,295)	(3,094,152)
Bank advances of previously consolidated subsidiary at date of change in control	4,982,754	—
	4,515,655	(1,008,023)
Financing		
Long-term debt incurred	500,000	—
Retirement of income debentures	(675,000)	(1,375,000)
Retirement of other long-term debt	(1,508,119)	(1,527,441)
Purchase of Algonquin Mercantile Corporation preference shares	(88,903)	(38,657)
	(1,772,022)	(2,941,098)
Dividends	(344,195)	(345,874)
Decrease (Increase) in Bank Advances	4,263,205	(8,427,482)
Bank Advances — Beginning of Year	(25,809,487)	(17,382,005)
Bank Advances — End of Year	(21,546,282)	(25,809,487)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 1986

1. Summary of Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies at their respective year-ends. The acquisitions of subsidiaries are accounted for as purchases and the results of all subsidiaries are included from the dates of acquisition.

(b) Inventories

Manufactured and warehouse inventories are valued at the lower of cost and net realizable value, with cost generally determined on a first-in, first-out basis. Retail store inventories are initially valued at normal selling prices and the amounts so determined are then reduced to the lower of cost and net realizable value by applying normal profit margins.

(c) Fixed assets

Fixed assets are depreciated principally on the diminishing balance basis over their estimated useful lives as follows:

Buildings	—	20 to 40 years
Equipment	—	7 to 17 years

(d) Other assets

Other assets consist primarily of goodwill arising on acquisitions, prescription lists and leasehold interests. The goodwill, substantially all of which arose prior to April 1974, is not being amortized so long as there is no evidence of impairment in value. The prescription lists are amortized over 10 years and the leasehold interests over lease life, both on a straight-line basis.

2. Discontinued Operations

On December 12, 1985, a subsidiary, Hardee Farms International Ltd., completed a share exchange offer which had the effect of reducing the Company's shareholding in Hardee from 60% to 20%. As a result the Company ceased to consolidate the accounts of Hardee and commenced to carry its investment in Hardee at cost, deemed to be the carrying value resulting from the use of the equity method to the date of the change in control.

Effective from March 31, 1986, the operations of the Wesston Appliances division were discontinued when its assets were sold.

The results of the discontinued operations were as follows:

	1986	1985
	$	$
Sales	24,294,866	37,983,161
Cost of sales and other expenses	23,602,802	35,915,621
Depreciation	554,532	863,514
	24,157,334	36,779,135
Earnings from discontinued operations before interest	137,532	1,204,026
Interest — tax deductible	591,952	979,255
(Loss) earnings from discontinued operations before income taxes, interest on income debentures and minority interest	(454,420)	224,771
Recovery of income taxes	125,000	15,000
	(329,420)	239,771
Interest on income debentures	263,171	524,329
	(592,591)	(284,558)
Minority interest	113,342	116,644
(Loss) from discontinued operations before extraordinary items	(479,249)	(167,914)

3. Investments

Investments are as follows:

	1986		1985	
	Cost	Market	Cost	Market
	$	$	$	$
Listed shares	4,546,168	7,435,224	1,177,401	802,845
Other investments	401,250		250,000	
	4,947,418		1,427,401	

4. Mortgages and Loans Receivable

Mortgages and loans receivable are as follows:

	Current	Long-term	1986 Total	1985 Total
	$	$	$	$
Mortgages and loans at interest rates between 9.5% and prime plus 2%, maturing over terms of up to 5 years	877,269	5,026,071	5,903,340	3,936,676

5. Fixed Assets

Fixed assets are as follows:

	1986	1985
	$	$
Buildings and equipment — at cost	13,021,875	26,296,351
Accumulated depreciation	7,530,671	13,598,431
	5,491,204	12,697,920
Land — at cost	655,903	802,239
Land (approximately 4,600 acres) — at values assigned by the directors in 1971 — plus amounts subsequently expended	—	735,307
	655,903	1,537,546
	6,147,107	14,235,466

6. Other Assets

Other assets are as follows:

	1986	1985
	$	$
Goodwill — at cost	540,124	799,286
Trademarks — at cost	26,481	550,454
Prescription lists — at cost	535,000	520,000
Leasehold interests — at cost	533,000	533,000
Other — at cost	15,785	15,785
	1,650,390	2,418,525
Accumulated amortization	524,732	369,224
	1,125,658	2,049,301

7. Bank Indebtedness

The Company has pledged shares in a subsidiary, book debts, inventories, fire insurance policies and mortgages receivable as security for bank indebtedness, including advances and long-term loans.

8. Long-term Debt

Long-term debt is as follows:

	Current	Long-term	1986 Total	1985 Total
	$	$	$	$
Bank loan (note 7), at an interest rate of 11%, due December 31, 1988	500,000	1,850,000	2,350,000	3,150,000
Income debentures at interest rates of one-half of prime plus 1% and 1½%, due on May 31, 1986	—	—	—	6,602,500
Debentures at an average rate of 12.96%, due January 15, 1991, payable $56,000 per month (see below)	672,000	4,480,000	5,152,000	5,824,000
Sundry mortgages and notes at interest rates ranging from 11½% to 14%, due between November 15, 1987 and October 15, 1990	111,932	281,505	393,437	2,487,174
	1,283,932	6,611,505	7,895,437	18,063,674

Repayments required on long-term debt in fiscal 1988 are $1,285,343, in fiscal 1989 $2,036,922, in fiscal 1990 $688,687 and in fiscal 1991 $2,600,553.

Interest on long-term debt for the current year amounted to $1,180,106 (1985 — $2,215,655).

Assets of subsidiaries having a carrying value of approximately $59,000,000 are pledged as security for the debentures by way of a fixed and floating charge which ranks second to the bank advances described in note 7.

9. Capital Stock

During the year the company made a retroactive allocation of its share capital between its Class A preference and common shares. The company calculated the amounts paid on purchases of its own shares in excess of the amounts allocated and charged the excess to retained earnings as a prior period adjustment.

During the year the company acquired on the open market 2,750 Class A preference shares for $88,903. These shares have been cancelled from the authorized capital stock of the company.

Dividend payments, if any, in any fiscal year on the Class A non-cumulative preference shares and the common shares are to be made in the following order:

(a) a 5¢ dividend is to be paid on the preference shares before any dividend is paid on the common shares;

(b) then a 5¢ dividend is to be paid on the common shares; and

(c) then the same dividend is to be paid on the common and preference shares.

The Class A non-voting preference shares rank equally with the common shares in all other respects.

10. Other Income

	1986	1985
	$	$
Interest, dividends and royalties	502,855	535,045
Net gain (loss) on disposals of investments	265,075	(11,929)
	767,930	523,116

11. Income Taxes

The company's effective income tax rate which differs from the basic tax rate is made up as follows:

	1986	1985
	%	%
Combined basic federal and provincial income tax rate	51.9	50.0
Increase (decrease) in income tax rate resulting from:		
Inventory allowance	(37.0)	(23.4)
Tax exempt investment income	(10.4)	(3.2)
Manufacturing and processing deduction	(2.7)	(1.1)
Other	5.8	1.8
Effective tax rate	7.6	24.1

The following amounts are available to reduce future income taxes:

	$
Losses available for tax purposes	
— expiring in fiscal 1992	562,000
— expiring in fiscal 1993	184,000
	746,000
Excess of depreciation recorded in the accounts over capital cost allowance claimed for tax purposes	177,000
The tax effects of the above have not been reflected in the accounts	923,000
In addition, future income tax payments could be deferred by refiling tax returns and claiming additional capital cost allowance in the amount of approximately	176,000
	1,099,000

12. Extraordinary Items

	1986	1985
	$	$
Extraordinary items, net of minority interest therein, are as follows:		
Gain on disposal of discontinued operations	251,082	—
Reduction of income taxes resulting from utilization of prior years' losses	174,754	47,502
Gain on disposal of fixed assets	—	303,370
Provision for loss on closure of plant	(288,860)	(540,810)
	136,976	(189,938)

13. Contingency

As a result of an unsuccesssful court action brought against a competitor for alleged design infringement, the competitor has been awarded $700,000 in damages. The amount of such damages has been appealed to the Federal Court of Canada. A decision is pending in this appeal but it is the opinion of the company, based upon legal counsel, that the amount awarded will be reduced. Expenses incurred to date in connection with these actions have been recorded as a prior period adjustment. Additional expenses and damages finally awarded will be similarly recorded.

14. Segmented Information

As a result of the discontinuance of Hardee Farms International Ltd. and Wesston Appliances (note 2) the company's business segments for the current year are as follows (the prior year's information has been reclassified):

(a) Drug retailing

— The operation of retail drug stores and the operation of drug, health and beauty aid departments in Canadian Woolco and Woolworth stores west of the Maritimes.

(b) Food wholesaling

— The wholesaling of local and imported fresh fruit and produce.

(c) Other

14. Segmented Information (continued)

	Drug retailing 1986	Food wholesaling 1986	Other 1986	Consolidated 1986
	$	$	$	$
Sales to third parties	121,894,872	48,782,673	29,208,977	199,886,522
Segment operating profit	3,197,915	617,122	1,341,205	5,156,242
Other income				767,930
General corporate expenses (net)				(1,144,697)
Earnings from operations before interest				4,779,475
Interest expense				(3,017,543)
Income taxes				(134,000)
Loss from discontinued operations				(479,249)
Extraordinary items				136,976
Net earnings for the year				1,285,659
Identifiable assets	50,319,146	4,042,196	9,678,297	64,039,639
Corporate assets				11,636,152
Total assets				75,675,791
Capital expenditures	528,132	158,691	683,383	1,370,206
Discontinued operations				562,089
Total capital expenditures				1,932,295
Depreciation	504,081	228,913	597,584	1,330,578
Discontinued operations				554,532
Total depreciation				1,885,110

	Drug retailing 1985	Food wholesaling 1985	Other 1985	Consolidated 1985
	$	$	$	$
Sales to third parties	116,325,939	53,024,405	28,991,025	198,341,369
Segment operating profit	4,256,956	796,455	1,330,029	6,383,440
Other income				523,116
General corporate expenses (net)				(1,040,771)
Earnings from operations before interest				5,865,785
Interest expense				(3,251,215)
Income taxes				(629,000)
Loss from discontinued operations				(167,914)
Extraordinary items				(189,938)
Net earnings for the year				1,627,718
Identifiable assets	46,597,086	4,606,338	9,108,091	60,311,515
Corporate assets				6,635,908
Discontinued operations				30,809,530
Total assets				97,756,953
Capital expenditures	315,535	369,542	914,287	1,599,364
Discontinued operations				1,494,788
Total capital expenditures				3,094,152
Depreciation	481,390	238,183	650,348	1,369,921
Discontinued operations				863,514
Total depreciation				2,233,435

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Algonquin Mercantile Corporation as at March 31, 1986 and the consolidated statements of earnings, retained earnings and cash flow 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 March 31, 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.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

Toronto, Ontario
May 16, 1986

DIRECTORS

W. Ross Abbott
Vice President and Secretary
Algonquin Mercantile Corporation

*Donald S. Anderson
Chairman
Canada Realties Limited

Cecil H. Franklin
Chairman of the Board and
Chief Executive Officer
Algonquin Mercantile Corporation

*Robert M. Franklin
Executive Vice President
Algonquin Mercantile Corporation

*Edward J. Kernaghan
Chairman and Chief Executive Officer
Thomson Kernaghan & Co. Limited

Francis D. Lace
Honorary Director
Dominion Securities Pitfield Limited

*Charles C. Laking

†E. Richard S. McLaughlin
President
Old Canada Investment Corporation Ltd.

*Donald E. McQuigge

Arthur W. Walker
President and Chief Operating Officer
Algonquin Mercantile Corporation

†Chairman, Audit Committee
*Audit Committee Members

EXECUTIVE OFFICERS

C. H. Franklin
Chairman of the Board and
Chief Executive Officer

D. H. Kirstine
Vice President Finance and
Treasurer

A. W. Walker
President and
Chief Operating Officer

W. R. Abbott
Vice President and Secretary

R. M. Franklin
Executive Vice President

M. J. Gardner
Assistant Secretary

CORPORATE INFORMATION

Head Office:
Suite 200, 931 Yonge St.
Toronto, Ontario M4W 2H7
Tel: (416) 962-8600
Tlx: 06-22891

Auditors:
Coopers & Lybrand, Toronto

Solicitors:
Fasken & Calvin, Toronto
Goodman & Goodman,
Toronto

Principal Bankers:
The Royal Bank of Canada
The Toronto-Dominion Bank
Canadian Imperial Bank of
Commerce

Transfer Agents & Registrar:
Guaranty Trust Company of
Canada, Toronto

Stock Listing:
Toronto Stock Exchange