

Algonquin

Algonquin Mercantile Corporation
1985 Annual Report



Algonquin Mercantile Corporation

Suite 200, 931 Yonge Street
Toronto, Ontario M4W 2H7

Notice of Annual Meeting of Common Shareholders

NOTICE IS HEREBY GIVEN that an Annual Meeting (the "Meeting") of the shareholders of Algonquin Mercantile Corporation (the "Corporation") will be held in the Library Room, Main Mezzanine Floor, Royal York Hotel, 100 Front Street West, Toronto, Ontario, on Tuesday the 23rd day of July, 1985 at the hour of 11:15 o'clock in the forenoon (Toronto time) for the following purposes:

1. To elect directors;
2. To appoint auditors and to authorize the board of directors to fix their remuneration; and
3. To transact such further and other business as may properly come before the Meeting or any adjournment or adjournments thereof.

A Management Information Circular (the "Circular") and a copy of the 1985 Annual Report, including the consolidated financial statements of the Corporation for the year ended March 31, 1985, accompany this notice of Meeting. Reference is made to the Circular for details of the matters to be considered at the Meeting.

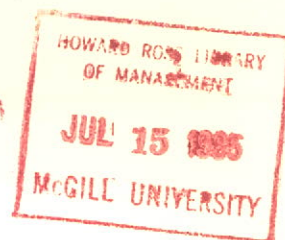
BY ORDER OF THE BOARD OF DIRECTORS

W. Ross Abbott
Vice-President and Secretary

Toronto, Canada
June 20, 1985

NOTE:

Proxies are being solicited by the management of the Corporation. Holders of Common Shares who are unable to be present in person at the Meeting are requested to date, complete and sign the enclosed form of proxy and return it in the addressed envelope provided for that purpose. To be effective, proxies must be received before 5:00 P.M. (Toronto time) on Monday, July 22, 1985, by the Corporation at Suite 200, 931 Yonge Street, Toronto, Ontario M4W 2H7.



Algonquin Mercantile Corporation

Management Information Circular

Introduction

This Management Information Circular (the "Circular") is furnished in connection with the solicitation by the Management of Algonquin Mercantile Corporation (hereinafter called "Algonquin" or the "Corporation") of proxies to be voted at the Annual Meeting of Shareholders of the Corporation (the "Meeting") to be held on Tuesday, July 23, 1985 for the purposes set forth in the accompanying notice of the Meeting (the "Notice").

This Circular, the Notice and the form of proxy are being first mailed to holders of common shares ("Common Shares") of the Corporation on or about June 28, 1985.

Voting Rights

The only class of securities of the Corporation carrying the right to vote at the Meeting is its Common Shares, which carry the right to one vote per share. As at the date hereof there are outstanding 444,238 Common Shares.

The board of directors of the Corporation has not fixed a record date for the determination of shareholders of the Corporation entitled to notice of and to attend and vote at the Meeting. Accordingly, holders of Common Shares and of Class A Non-Voting Shares of record as at the close of business on the day immediately preceding the sending of the Circular and accompanying Notice are entitled to receive notice of and to attend at the Meeting in person or by proxy, and the holders of Common Shares of record on such date shall be entitled to vote at the Meeting except that a transferee of Common Shares acquired after such date shall be entitled to vote at the Meeting only if such transferee produces properly endorsed certificates for such Common Shares or otherwise establishes ownership thereof and demands, not later than ten (10) clear days before the Meeting, that the name of such transferee be included in the list of shareholders entitled to vote at the Meeting. Holders of Class A Non-Voting Shares are not entitled to vote on any matter to be considered at the Meeting.

Holders of Common Shares desiring to be represented by proxy at the Meeting must deposit an executed form of proxy with the Secretary of the Corporation at the address set out above, prior to 5:00 P.M. (Toronto time) on Monday, July 22, 1985. A return envelope for this purpose is enclosed.

Certain Beneficial Owners of the Corporation's Securities

The following table sets forth certain information as at June 20, 1985 with respect to any person or group of persons known by the directors and officers of the Corporation to beneficially own, directly or indirectly, or exercise control or direction over, more than 10% of the Corporation's Common Shares:

<u>Name of Beneficial Owner</u>	<u>Approximate Number of Common Shares</u>	<u>Percent of Common Shares</u>
Cecil H. Franklin	268,398	60.4%
Edward J. Kernaghan	46,600	10.4%

Election of Directors

A board of ten directors is to be elected at the Meeting to serve until the next annual meeting or until their successors are appointed. Unless otherwise directed, the enclosed proxy will be voted for the election as directors of the nominees named below, who are the current directors of the Corporation. The following information is submitted with respect to the nominees for director.

<u>Nominees</u>	<u>Director Since</u>	<u>Principal Occupation and Position with Affiliated Corporations</u>	<u>Common Shares Beneficially owned as at June 20, 1985⁽¹⁾</u>	
			<u>Corporation</u>	<u>Hardee Farms International Ltd.⁽²⁾</u>
W. Ross Abbott	1968	Vice-President and Secretary, Algonquin Mercantile Corporation and Hardee Farms International Ltd.	102	—
* Donald S. Anderson	1976	Chairman of the Board, Canada Realties Limited (Real Estate Development Consultants) and Director, Hardee Farms International Ltd.	500	1,000

Nominees	Director Since	Principal Occupation and Position with Affiliated Corporations	Common Shares Beneficially owned as at June 20, 1985 ⁽¹⁾	
			Corporation	Hardee Farms International Ltd. ⁽²⁾
Cecil H. Franklin	1968	Chairman of the Board, Algonquin Mercantile Corporation and Hardee Farms International Ltd.	268,398	3,104,677 ⁽³⁾
*Robert M. Franklin	1974	Executive Vice-President, Algonquin Mercantile Corporation, and Vice-Chairman of the Board, Hardee Farms International Ltd.	37,694	15,800
Edward J. Kernaghan	1981	Chairman, Thomson Kernaghan & Co. Limited (Investment Dealers)	46,600	—
*Charles C. Laking	1957	Retired	2,520	5,000
Francis D. Lace	1959	Honorary Director, Dominion Securities Pitfield Limited (Investment Dealers) Director, Hardee Farms International Ltd.	20,500	35,000
†E. Richard S. McLaughlin	1972	President, Old Canada Investment Corporation Ltd. (Investment Fund) and Director, Hardee Farms International Ltd.	6,100	21,000
*Donald E. McQuigge	1961	Retired	5,340	5,000
Arthur W. Walker	1973	President, Algonquin Mercantile Corporation and Hardee Farms International Ltd.	4,285	11,600

(1)The information as to shares owned by each nominee, not being within the knowledge of the Corporation, has been furnished by such nominees.

(2)A subsidiary of the Corporation.

(3)Mr. Cecil H. Franklin, personally and through an affiliate corporation and through his ownership of Common Shares of the Corporation controls 3,104,677 or approximately 62.1% of the outstanding shares of Hardee Farms International Ltd.

(4)The Corporation is required to have an audit committee and does not have an executive committee.

Audit Committee Chairman (†) and Members (*)

Directors' and Officers' Remuneration from the Corporation and its Subsidiaries

The following table shows the aggregate direct remuneration paid or payable in respect of the fiscal year ended March 31, 1985 by the Corporation and its subsidiaries to the directors and five senior officers of the Corporation:

	Remuneration Table		
	Nature of Remuneration		
	From Office, Employment and Employer Contributions (aggregate)	Cost of Pension Benefits (aggregate)	Other (aggregate)
(1) DIRECTORS: 10			
(A) From issuer and Wholly-owned Subsidiaries:	\$ 29,400	nil	nil
(B) From Partially-owned Subsidiaries: Hardee Farms International Ltd.	13,800	nil	nil
TOTAL	\$ 43,200	nil	nil

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 of fresh fruits and vegetables, plus the canning, freezing or freeze-drying of processed foods and beverages; and the manufacturing of industrial piping products and portable electrical appliances. More than 2,300 people are employed at locations across Canada which include ten main plants and wholesale distribution centres, seven company-owned retail drug stores, and 116 pharmacy, health, and beauty aid outlets operated under license in Woolco/Woolworth department stores. The company has extensive real estate holdings, maintains a varied investment portfolio, and engages in limited merchant banking activities. Shares of the company are listed on the Toronto Stock Exchange.

FINANCIAL HIGHLIGHTS

Fiscal Years Ended	March 31 1985	March 31 1984	June 30 1983 (9 months)
Operating Results			
Sales	\$ 236,324,530	\$ 216,447,190	\$ 80,750,100
Earnings before extraordinary items	1,817,656	2,398,553	1,414,475
Net earnings	1,627,718	2,508,184	1,654,830
Per Share			
Earnings before extraordinary items	3.16	4.15	2.41
Net earnings	2.83	4.34	2.82
Dividends	.60	.60	.30
Shareholders' equity	33.30	31.08	27.33
At Year End			
Working capital	17,276,981	18,585,158	18,184,909
Total assets	97,756,953	90,236,411	82,003,913
Shareholders' equity	19,165,473	17,922,286	15,828,068

The Annual Meeting of Shareholders will be held in the Library Room, Main Mezzanine Floor, Royal York Hotel, 100 Front Street West, Toronto, Ontario on July 23, 1985 at 11:15 in the morning.

REPORT TO SHAREHOLDERS

The year ended March 31, 1985 covered a period of transition for Algonquin Mercantile Corporation in several significant respects. Important changes were implemented during the year to build stronger foundations for improvement in future operating results. Immediate earnings were reduced by approximately 25% but a return to higher levels of profitability is anticipated in the current year.

Earnings from operations for fiscal 1985 amounted to \$1,817,656 or \$3.16 per share against \$2,398,553 or \$4.15 per share realized in the preceding year. After extraordinary charges of \$189,938 final net earnings for the 1985 year amounted to \$1,627,718 or \$2.83 per share.

The book value of Algonquin's shareholder equity at year end rose to \$33.30 per share by comparison with the amount of \$31.08 per share reflected at the close of the 1984 fiscal year.

Consolidated sales volume totalled a record \$236,324,530 for an increase of 9.2% over the previous year's total. Against a much lower inflation rate this sales increase represents an important gain in market share of Algonquin's drug retailing and food wholesaling divisions despite keenly competitive conditions affecting these major segments of the business.

Of particular significance to future operating results was the introduction by the Austin Drugs Division of a new Super Drug Store concept in its Woolco licensee operations. Under this new format, professional pharmacy expertise is being presented in a larger, highly attractive atmosphere offering keenly competitive discount prices on a fully complete selection of drug, health, and beauty aid products. The Woolco Super Drug Store is part of your Company's strong answer to the increasingly aggressive competition being presented to all retailers by warehouse discounters and grocery combination stores across Canada.

As a further opportunity in servicing alternative consumer preferences, Algonquin, through Austin Drugs, has recently entered into a 50% joint venture

arrangement with one of Canada's leading apparel retailers to operate retail stores of approximately 20,000 sq. ft. in high traffic areas, offering a wide variety of products including drugs, clothing, certain groceries and many other items at low discount prices under a new Super Drug Warehouse presentation. In addition to offering special periodic feature prices on selected products, these outlets will be distinguished by their everyday maintenance of consistent deep discount prices on all items throughout each store. The first Super Drug Warehouse opening is scheduled for November in the western part of Metropolitan Toronto. Other locations are under review. The combined expertise of the partners in this venture should assure the rapid and successful emergence of a new and distinctive presence on the Ontario retail scene.

Of major long-term importance to the Dominion Citrus Division was the renewal during the past year for an additional 30 year term plus further renewal options of the lease covering continued occupancy by Dominion of its 4½ wholesaling units out of a total of 45 such units on the Ontario Food Terminal. The wholesaling of produce in Ontario's major market areas is governed by a special Act of the Ontario legislature under which wholesale trading is restricted to the Ontario Food Terminal location in Toronto. Dominion's food terminal lease is an important asset of the Company.

Algonquin's interest in its subsidiary, Hardee Farms International Ltd., was increased to 60.1% by share purchases during the year. The decision to close Hardee's Lambeth vegetable freezing plant produced an extraordinary loss within that subsidiary and also impacted its operating results for the 1985 fiscal year. In addition to significantly enhancing Hardee's future earnings prospects, the termination of unprofitable Lambeth activities will release substantial amounts of fixed and working capital for reduction of bank indebtedness and income debenture principal over the course of the next twelve months.

The comments which follow provide highlights covering major operating divisions of the Company.

AUSTIN DRUGS DIVISION

Woolco Licensee Operations

As a result of highly competitive retail influences encountered, particularly in the western provinces, earnings were approximately 10% lower than those of the preceding year. Despite this, a satisfactory sales volume increase was achieved.

The new Woolco Super Drug Store concept previously mentioned was developed and introduced during the year in close co-operation with the F. W. Woolworth organization. This system is now being operated with excellent success in nine Woolco/Woolworth locations and four additional conversions are scheduled in the next few months. Future conversion plans are expected to include all Woolco stores over a period of several years.

Jasco Drug Marts

Earnings were satisfactory in relation to those of a year ago.

One Jasco Drug Mart freestanding store was closed during the year and one new location was opened so that a total of seven Jasco full-line drug stores and retail pharmacies were being operated in Ontario at year end.

Two new Jasco Drug Marts are currently scheduled for opening, one in Scarborough and the other in Richmond Hill. Both will be in previously proven drug store locations.

Future development and growth of this division is planned by acquiring existing successful stores, either singly or in groups, in specific identifiable markets.

Home Health Care and Convalescent Aids

This new division was opened during the past year in recognition of emergent needs as the number of Senior Citizens increases and as the cost of care in hospitals continues to grow. Austin today operates five Home Health Care units, three in Jasco stores and two in Woolco Super Drug Stores.

In these units, Austin carries a wide variety of products including wheelchairs, canes, crutches, bath safety equipment, supports and braces, ostomy and incontinence supplies, sickroom supplies. . . . in short a complete line of Home Health Care Convalescent Aids. Surgical appliance technicians and other specialized staff are engaged in the operation of these units.

Plans call for expansion and establishment of further Home Health Care units in selected markets in both Jasco Drug Marts and Woolco/Woolworth stores.

DOMINION CITRUS DIVISION

Ontario Food Terminal

Although sales volume for the 1985 fiscal year reached record levels, earnings from fruit and vegetable wholesaling operations at the Ontario Food Terminal were below those of the preceding year.

The major factor underlying this setback was the steady and significant decline in value of the Canadian dollar in relation to the U.S. dollar over the course of the year. Results since year end have benefitted from the more stable relationships now existing between these two currencies. A return to higher profitability in this major division is anticipated in the current year.

Skwor's Produce

Operating results of the Skwor's food service distribution arm of Dominion Citrus paralleled those achieved in the previous twelve months after absorption of increased rental and occupancy costs related to the 50% expansion of warehouse space during the year to accommodate future growth of Skwor's business in Metropolitan Toronto.

Skwor's Produce sales volume has again increased since year end and after three years of relatively static performance, operations are now reflecting the improvement in results for which additional warehouse space was acquired.

Management is actively seeking ways to further expand the Company's food service distribution activities by establishing new facilities or becoming associated with existing food service distributors in other major cities in Ontario.

Dominion Farm Produce

Sales and earnings from fresh vegetable grading and packaging operations at Bradford, Ontario, were again satisfactory with results approximately equal to those recorded in the preceding twelve months.

Space limitations continue to present a problem at this location and an expansion of plant facilities is planned for the current year to provide additional production and storage capacity from which increased sales and earnings should result.

Country Fresh Packaging

Earnings from fruit and vegetable tray packaging operations in Toronto fell below results realized in the previous fiscal year but remained well above the unsatisfactory performance levels which prevailed in years prior to 1983.

Country Fresh is now seeking to expand its role as a service packer by contracting with major retail grocery chains for increased utilization of the sophisticated, high-speed, electronic packaging facilities and other equipment acquired during the 1984 fiscal year.

MANUFACTURING DIVISIONS

Coupcu

In the latter part of the 1984 fiscal year Coupcu acquired exclusive Canadian distribution rights to a line of threaded piping products manufactured by Ward Foundries of Blossburg, Pennsylvania. This was to complement Coupcu's own line of grooved-end piping products so that a complete range of pipe couplings, fittings, valves, and pipe hangers could be offered by Coupcu across Canada to the industrial plumbing, heating, air conditioning, fire protection, construction and mining industries.

Non-recurring costs associated with integration of the Ward product line and related distribution facilities impacted results of the 1985 fiscal year so that Coupcu Division earnings were marginally lower than those of the preceding year despite an increase of almost 90% in sales volume. However, the benefits of integration and higher volume are clearly evident in results since fiscal year end and improved profitability is anticipated in the current year.

Wesston Appliances

Despite reduced sales volume the Wesston Appliances Division became modestly profitable by the 1985 fiscal year end — a marked improvement over the previous year's substantial loss. Special

attention continues to be given to this division whose results, though improved, are still unsatisfactory.

The successful introduction of the new Weston 4000 four-cup plastic electric kettle was an important factor in the Appliance Division's progress over the past year. A recent innovation incorporating an attractive variety of decorator colours in the Weston 4000 plastic kettle series should further extend the market for this award-winning new product.

Greater penetration into U.S. markets with Weston and Jubilee brand products is a priority objective in future operating plans of the Weston Appliances Division.

SUBSIDIARY COMPANY OPERATIONS

Hardee Farms International Ltd.

Results of Algonquin's 60.1% food processing subsidiary were again disappointing. Hardee reported a loss of \$292,731 before extraordinary items and a final net loss of \$607,871 for the year.

The chief element within these loss figures relates to the decision to consolidate Hardee's frozen vegetable processing operations at Ingersoll, Ontario, and to terminate uneconomic processing activities at the Lambeth plant. Provision has been made in Hardee's accounts to cover losses related to the Lambeth plant closure. As a result of these changes it is anticipated that Hardee's operating results for the current year will be significantly profitable.

It is also anticipated that proceeds from Lambeth real estate and other asset sales will be substantial and will exceed the book values recorded in Hardee's accounts.

Results of the Baxter Canning Division were unfavourable as primary food processing margins remain under pressure. Baxter continues to pursue

completion of a major year round custom canning contract. Completion of such a contract would significantly improve future earnings prospects.

Another impressive improvement in earnings was realized during the past year by the Freeze Dried Foods Division and also by the HONEYDEW Beverage Division. Performance of both divisions has been favourable and continued good results are anticipated.

SUMMARY

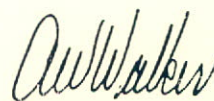
Following a year of innovation and consolidation, Algonquin looks forward to renewed growth and earnings improvement. Outlook for the current year is positive and we face the future with optimism.

We take this opportunity to thank employees in all segments of the company for their dedication and efforts which have contributed importantly to Algonquin's continued progress. The loyalty and goodwill of customers, suppliers and business associates is also very much appreciated.

Respectfully, on behalf of the Board,



Cecil H. Franklin
Chairman and Chief Executive Officer



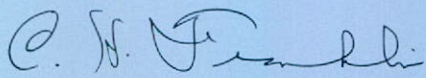
Arthur W. Walker
President and Chief Operating Officer

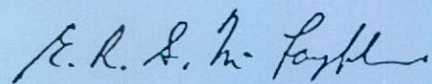
June 20, 1985
Toronto, Ontario

CONSOLIDATED

as at

ASSETS	1985	1984
	\$	\$
CURRENT ASSETS		
Accounts receivable	17,621,858	15,461,593
Inventories	56,370,145	50,602,417
Income taxes recoverable	1,309,841	—
Prepaid crop and other expenses	806,265	1,675,883
Current portion of mortgages receivable	971,560	1,170,785
	77,079,669	68,910,678
 INVESTMENTS (note 3)	 1,427,401	 1,681,787
MORTGAGES RECEIVABLE (note 4)	2,965,116	3,603,192
 FIXED ASSETS (note 5)	 14,235,466	 13,831,852
OTHER ASSETS (note 6)	2,049,301	2,208,902
	97,756,953	90,236,411


Director


Director

BALANCE SHEET

March 31, 1985

	1985	1984
	\$	\$
LIABILITIES		
CURRENT LIABILITIES		
Bank advances (note 7)	25,809,487	17,382,005
Accounts payable and accrued liabilities	31,628,542	29,368,809
Income taxes payable	—	921,273
Current portion of long-term debt	<u>2,364,659</u>	<u>2,653,433</u>
	59,802,688	50,325,520
LONG-TERM DEBT (note 8)	15,699,015	18,312,682
DEFERRED REVENUE	228,571	285,714
DEFERRED INCOME TAXES	869,000	1,109,000
MINORITY INTEREST IN HARDEE FARMS INTERNATIONAL LTD.	<u>1,992,206</u>	<u>2,281,209</u>
	<u>78,591,480</u>	<u>72,314,125</u>
CONTINGENCY (note 13)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 9)		
Authorized —		
856,173 5¢ Class A, non-voting, non-cumulative participating preference shares		
500,000 common shares		
Issued and fully paid —		
131,333 (1984 — 132,473) Class A preference shares		
444,238 common shares	2,426,187	2,464,844
RETAINED EARNINGS	<u>16,739,286</u>	<u>15,457,442</u>
	<u>19,165,473</u>	<u>17,922,286</u>
	<u>97,756,953</u>	<u>90,236,411</u>

Algonquin Mercantile Corporation

CONSOLIDATED STATEMENT OF EARNINGS

For the Year Ended March 31, 1985

	1985	1984
	\$	\$
Sales	236,324,530	216,447,190
Cost of Sales and Other Expenses	227,544,400	207,312,432
Depreciation	2,233,435	2,018,169
	<u>229,777,835</u>	<u>209,330,601</u>
Other Income (note 10)	6,546,695	7,116,589
	<u>523,116</u>	<u>952,722</u>
Earnings From Operations Before Interest	7,069,811	8,069,311
Interest — Tax Deductible (note 8)	4,230,470	3,755,972
Earnings From Operations Before Income Taxes, Interest on Income Debentures and Minority Interest	<u>2,839,341</u>	<u>4,313,339</u>
Provision for (Recovery of) Income Taxes		
Current	854,000	1,649,000
Deferred	(240,000)	(247,000)
	<u>614,000</u>	<u>1,402,000</u>
	2,225,341	2,911,339
Interest on Income Debentures (note 8)	524,329	544,261
	<u>1,701,012</u>	<u>2,367,078</u>
Minority Interest in Loss of Subsidiaries	116,644	31,475
Earnings for the Year Before Extraordinary Items	1,817,656	2,398,553
Extraordinary Items (note 12)	(189,938)	109,631
Net Earnings for the Year	<u>1,627,718</u>	<u>2,508,184</u>
Per Share:		
Earnings before extraordinary items	<u>\$3.16</u>	<u>\$4.15</u>
Net earnings for the year	<u>\$2.83</u>	<u>\$4.34</u>

NOTE:

The earnings per share have been calculated for 1985 on 575,889 shares and for 1984 on 578,281 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, 1985

	1985	1984
	\$	\$
Retained Earnings — Beginning of Year	\$	\$
As previously reported	15,639,012	13,475,304
Prior period adjustment, net of income taxes (note 13)	181,570	181,570
As restated	<u>15,457,442</u>	<u>13,293,734</u>
Net earnings for the year	1,627,718	2,508,184
	<u>17,085,160</u>	<u>15,801,918</u>
Dividends	345,874	344,476
Retained Earnings — End of Year	<u>16,739,286</u>	<u>15,457,442</u>

Algonquin Mercantile Corporation

**CONSOLIDATED STATEMENT OF
CHANGES IN FINANCIAL POSITION**

For the Year Ended March 31, 1985

	<u>1985</u>	<u>1984</u>
	\$	\$
Source of Funds		
Earnings for the year before extraordinary items	1,817,656	2,398,553
Depreciation and other items not requiring an outlay of funds	<u>1,899,613</u>	<u>1,332,467</u>
Provided from operations	3,717,269	3,731,020
Proceeds on disposal of fixed assets	1,127,067	72,343
Proceeds on disposal of investments	989,953	1,489,584
Reduction in mortgages receivable	1,173,076	1,186,490
Long-term debt incurred	275,000	100,000
Deferred revenue	—	342,857
Reduction of income taxes resulting from utilization of prior years' losses	<u>80,000</u>	<u>185,000</u>
	<u>7,362,365</u>	<u>7,107,294</u>
Use of Funds		
Purchase of fixed and other assets	3,094,152	2,534,333
Purchase of investments	815,313	857,664
Mortgage receivable on disposal of fixed assets	535,000	—
Retirement of income debentures	1,375,000	775,000
Retirement of other long-term debt	1,513,667	2,030,434
Provision for loss on closure of plant	900,000	—
Purchase of Algonquin Mercantile Corporation preference shares	38,657	69,490
Purchase of minority interest shares in subsidiary	52,879	95,648
Dividends	<u>345,874</u>	<u>344,476</u>
	<u>8,670,542</u>	<u>6,707,045</u>
(Decrease) Increase in Working Capital	(1,308,177)	400,249
Working Capital — Beginning of Year	<u>18,585,158</u>	<u>18,184,909</u>
Working Capital — End of Year	<u>17,276,981</u>	<u>18,585,158</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 1985

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.

A subsidiary company's 75% interest in an unincorporated partnership is accounted for by the proportionate consolidation method.

(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. The valuation of retail store inventories is determined by the retail inventory method, which prices the majority of items at normal selling prices and reduces the amounts so determined to the lower of cost and net realizable value by applying normal profit margins.

(c) Prepaid crop expenses

Crop expenses attributable to the current farm program are included in prepaid crop expenses.

(d) Fixed assets

Fixed assets are depreciated principally on a straight-line basis over their estimated useful lives as follows:

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

(e) Other assets

Other assets consist primarily of goodwill arising on acquisitions, HONEYDEW trademarks, prescription lists and leasehold interests. The goodwill, substantially all of which arose prior to April 1974, and the trademarks are 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. Goodwill acquired after March, 1974 is being amortized.

2. Acquisitions of Minority Interest of Subsidiary

As at March 31, 1985 the company owned 60.1% (1984 — 59.3%) of the outstanding common shares of Hardee Farms International Ltd.

3. Investments

Investments are as follows:

	1985		1984	
	Cost	Market	Cost	Market
	\$	\$	\$	\$
Listed shares	1,177,401	<u>802,845</u>	1,431,787	<u>1,129,531</u>
Other investments	<u>250,000</u>		<u>250,000</u>	
	<u>1,427,401</u>		<u>1,681,787</u>	

4. Mortgages Receivable

Mortgages receivable are as follows:

	1985		1984	
	Current	Long-term	Total	Total
	\$	\$	\$	\$
Sundry mortgages, at interest rates between 10% and prime plus 2%, due between April 11, 1985 and December 29, 1988	<u>971,560</u>	<u>2,965,116</u>	<u>3,936,676</u>	<u>4,773,977</u>

5. Fixed Assets

Fixed assets are as follows:

	1985	1984
	\$	\$
Buildings and equipment — at cost	26,296,351	24,824,837
Accumulated depreciation	<u>13,598,431</u>	<u>12,538,999</u>
	12,697,920	12,285,838
Land — at cost	802,239	946,014
Land (approximately 4,600 acres) — at values assigned by the directors in 1971 — plus amounts subsequently expended	<u>735,307</u>	<u>600,000</u>
	1,537,546	1,546,014
	<u>14,235,466</u>	<u>13,831,852</u>

6. Other Assets

Other assets are as follows:

	1985	1984
	\$	\$
Goodwill — at cost	799,286	793,564
Trademarks — at cost	550,454	550,454
Prescription lists — at cost	520,000	520,000
Leasehold interests — at cost	533,000	533,000
Other — at cost	<u>15,785</u>	<u>104,897</u>
	2,418,525	2,501,915
Accumulated amortization	<u>369,224</u>	<u>293,013</u>
	<u>2,049,301</u>	<u>2,208,902</u>

7. Bank Indebtedness

Bank indebtedness, including advances, long-term loans and income debentures, is secured by a pledge of shares in a subsidiary, assignment of book debts, inventories, fire insurance policies, mortgages receivable and debentures on the assets of subsidiary companies.

8. Long-term Debt

Long-term debt is as follows:

	Current	Long-term	1985 Total	1984 Total
	\$	\$	\$	\$
Bank loans (note 7), at interest rates of prime plus 1%, due April 30, 1987 and January 31, 1989	600,000	2,550,000	3,150,000	3,750,000
Income debentures (note 7) at interest rates of one-half of prime plus 1% and 1½%, due on May 31, 1986	625,000	5,977,500	6,602,500	7,977,500
15% debentures due October 15, 1987 payable \$56,000 per month (see below)	672,000	5,152,000	5,824,000	6,496,000
Sundry mortgages and notes at interest rates ranging from nil to 16¾%, due between October 15, 1985 and September 23, 1991	<u>467,659</u>	<u>2,019,515</u>	<u>2,487,174</u>	<u>2,742,615</u>
	<u>2,364,659</u>	<u>15,699,015</u>	<u>18,063,674</u>	<u>20,966,115</u>

Repayments required on long-term debt in fiscal 1987 are \$7,729,618, in fiscal 1988 \$5,574,109, in fiscal 1989 \$1,759,826, and in fiscal 1990 \$362,090

Interest on long-term debt for the current year amounted to \$2,215,655.

Interest on income debentures is not deductible for tax purposes.

The 15% debentures are secured by a fixed and floating charge on the assets of certain subsidiaries which ranks second to the bank advances described in note 7.

9. Capital Stock

During the year the company acquired on the open market 1,140 Class A preference shares for \$38,657. 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

	1985	1984
	\$	\$
Interest and dividends	535,045	666,083
Net (loss) gain on disposals of investments	<u>(11,929)</u>	<u>286,639</u>
	<u>523,116</u>	<u>952,722</u>

11. Income Taxes

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

	1985	1984
	%	%
Combined basic federal and provincial income tax rate	50.0	49.9
Increase (decrease) in income tax rate resulting from:		
Inventory allowance	(27.2)	(15.2)
Tax exempt investment income	(3.0)	(2.4)
Manufacturing and processing deduction	(0.9)	(1.5)
Other	2.7	1.7
Effective tax rate	<u>21.6</u>	<u>32.5</u>

The following amounts are available to reduce future income taxes of subsidiaries:

Losses available for tax purposes	\$
— expiring in fiscal 1986	42,000
— expiring in fiscal 1992	<u>283,000</u>
	325,000
Excess of depreciation recorded in the accounts over capital cost allowance claimed for tax purposes	<u>3,889,000</u>
The tax effects of the above have not been reflected in the accounts	4,214,000
In addition, future income tax payments could be deferred by refileing tax returns and claiming additional capital cost allowance in the amount of approximately	<u>2,407,000</u>
	<u>6,621,000</u>

12. Extraordinary Items

	1985	1984
	\$	\$
Extraordinary items, net of minority interest therein, are as follows:		
Reduction of income taxes resulting from utilization of prior years' losses	47,502	109,631
Gain on disposal of fixed assets	303,370	—
Provision for loss on closure of plant	<u>(540,810)</u>	<u>—</u>
	<u>(189,938)</u>	<u>109,631</u>

13. Contingency

As a result of an unsuccessful court action brought against a competitor for alleged design infringement, the competitor became entitled to proveable damages and filed a claim against the company in the amount of \$1,700,000. A decision is pending in this matter but it is the opinion of the company, based upon legal counsel, that the amount claimed is grossly in excess of proveable damages. Expenses incurred to date in connection with these actions have been recorded as a prior period adjustment. Any additional expenses or damages awarded will be similarly recorded.

14. Segmented Information

The company operates in three business segments as follows:

(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 processing, wholesaling and distribution

— The packaging, wholesaling and distribution of local and imported fresh fruit and produce; and the canning, freezing or freeze-drying of seasonal vegetable crops, formulated food products and entrees, HONEYDEW fruit drinks, juices and other beverages.

(c) Manufacturing

— The manufacture of pipe couplings, fittings and butterfly valves and the manufacture of electrical small appliances.

There are no inter-segment sales.

	Drug retailing 1985	Food processing, wholesaling and distribution 1985	Manufacturing 1985	Consolidated 1985
	\$	\$	\$	\$
Sales	<u>116,325,939</u>	<u>108,312,130</u>	<u>11,686,461</u>	<u>236,324,530</u>
Segment operating profit	<u>4,256,956</u>	<u>3,663,750</u>	<u>48,572</u>	7,969,278
Other income				523,116
General corporate expenses (net)				(1,422,583)
Earnings from operations before interest				7,069,811
Interest expense				(4,754,799)
Income taxes				(614,000)
Minority interest in loss of subsidiaries				116,644
Extraordinary items				(189,938)
Net earnings for the year				<u>1,627,718</u>
Identifiable assets	<u>46,597,086</u>	<u>35,223,570</u>	<u>9,514,774</u>	91,335,430
Corporate assets				6,421,523
Total assets				<u>97,756,953</u>
Capital expenditures	<u>315,535</u>	<u>2,423,084</u>	<u>355,533</u>	<u>3,094,152</u>
Depreciation	<u>481,390</u>	<u>1,366,569</u>	<u>385,476</u>	<u>2,233,435</u>

Algonquin Mercantile Corporation

14. Segmented Information (continued)

	Drug retailing 1984	Food processing, wholesaling and distribution 1984	Manufacturing 1984	Consolidated 1984
	\$	\$	\$	\$
Sales	108,137,750	97,276,536	11,032,904	216,447,190
Segment operating profit (loss)	<u>4,727,023</u>	<u>4,286,248</u>	<u>(443,156)</u>	8,570,115
Other income				952,722
General corporate expenses (net)				(1,453,526)
Earnings from operations before interest				8,069,311
Interest expense				(4,300,233)
Income taxes				(1,402,000)
Minority interest in loss of subsidiaries				31,475
Extraordinary item				109,631
Net earnings for the year				<u>2,508,184</u>
Identifiable assets	<u>38,058,285</u>	<u>34,921,003</u>	<u>10,531,605</u>	83,510,893
Corporate assets				6,725,518
Total assets				<u>90,236,411</u>
Capital expenditures	<u>269,124</u>	<u>1,451,549</u>	<u>813,660</u>	<u>2,534,333</u>
Depreciation	<u>513,067</u>	<u>1,193,821</u>	<u>311,281</u>	<u>2,018,169</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Algonquin Mercantile Corporation as at March 31, 1985 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 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.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

Toronto, Ontario
May 31, 1985

DIRECTORS

W. Ross Abbott
Vice President and Secretary
Algonquin Mercantile Corporation

*Donald S. Anderson
Chairman
Canada Realities 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. Lacey
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

Algonquin Mercantile Corporation

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

