# Algonquin

Algonquin Mercantile Corporation
1987 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 provision of home health care services; the wholesaling, packaging, and distribution of fresh fruits and vegetables; the manufacturing of industrial piping products; and limited merchant banking activities. Approximately 1,900 people are employed at locations across Canada which include eight main plants and wholesale distribution centres, seventeen home health care and convalescent aids centres, eleven company-owned retail drug stores, and 117 pharmacy, health, and beauty aid outlets operated under license in Woolco/Woolworth department stores. The company has real estate holdings and maintains a varied investment portfolio.*

# FINANCIAL HIGHLIGHTS

| | 1987 | 1986 | 1985 |
|---|---|---|---|
| **Operating Results** | $ | $ | $ |
| Sales from continuing operations | 215,035,944 | 199,886,522 | 198,341,369 |
| Earnings from continuing operations | 2,908,936 | 1,525,227 | 1,882,865 |
| Earnings before extraordinary items | 2,908,936 | 1,045,978 | 1,714,951 |
| Net earnings | 2,908,936 | 1,182,954 | 1,525,013 |
| **Per Share** | | | |
| Earnings from continuing operations | 5.08 | 2.66 | 3.27 |
| Earnings before extraordinary items | 5.08 | 1.82 | 2.98 |
| Net earnings | 5.08 | 2.06 | 2.65 |
| Dividends | .65 | .60 | .60 |
| Shareholders' equity | 38.11 | 33.68 | 32.22 |

The Annual and Special Meeting of Shareholders will be held in the Ontario Room, Lower Lobby Level, L'Hotel, 225 Front Street West, Toronto, Ontario on Thursday, June 25, 1987 at 11:00 in the morning.

## *REPORT TO SHAREHOLDERS*

As indicated in the body of this 31st Annual Report, Algonquin Mercantile Corporation continues to prosper.

Net earnings rose to $5.08 per share from $2.06 for the previous year. Disposal of a majority of the Cobi shares obtained from the Hardee-Cobi amalgamation netted a profit of $1,382,177 after tax during the 1987 fiscal year.

A dividend rate increase of 33 1/3% (20¢ quarterly versus 15¢) became effective with the March 31, 1987 payment.

Subject to required approvals, the Board of Directors has recommended the current limit on the number of common shares be removed and an unlimited number of common shares be authorized. Subject to this and to shareholder and regulatory approval, they have approved and recommended that each issued Class A share be changed into a Common Share and the then total Common Shares issued be split on a five for one basis.

After the special resolution to permit all of the foregoing is effective, the Corporation intends to offer the holders of its outstanding Common Shares the right to subscribe for additional Common Shares on a subscription basis to be determined. The suggested number of rights to be issued is one right per share, with five rights being required to permit the purchase of one new share.

During the 1987 fiscal year, Mr. Robert M. Franklin was promoted from Executive Vice-President to Vice Chairman and Chief Executive Officer.

Mr. Arthur W. Walker, already President of Algonquin and Chairman and Chief Executive Officer of Jack Austin Drugs Limited, was also appointed Chairman and Chief Executive Officer of Dominion Citrus & Drugs Ltd.

Mr. Cecil H. Franklin, who since 1968 has been Algonquin's Chief Executive Officer, will continue as Chairman of the Board and as Chairman of the newly formed Executive Committee of the Board consisting of Messrs. C. H. Franklin, R. M. Franklin, E. J. Kernaghan, F. D. Lace and A. W. Walker.

Two long term directors elected to resign from the active Board. These two gentlemen have provided long and excellent service at the Board level. Mr. C. C. Laking, director since 1957 and member of the Audit Committee for several years, has tendered his resignation as an active director but accepted appointment as an honorary director. Mr. D. E. McQuigge, director since 1961 and member of the Audit Committee, will not be standing for re-election. Both of these directors have been highly regarded active Board members and will be missed.

Once again we can report a positive future outlook. A concentrated budgetary analysis just completed indicated the 1987/88 result should equal or better that for 1986/87.

Our human resource asset is excellent; our customer and supplier relationships very good and our financial position continually improving. We look with great optimism to the future.

On behalf of the Board,

C. H. Franklin

C. H. Franklin
Chairman of the Board

May 20, 1987

## *OPERATIONS REVIEW*

This has been another year of achievement for your Company. Net earnings from continuing operations for the 1987 fiscal year were at a record level of $5.08 per share on sales of $215,035,944 versus $2.66 per share ($2.06 after extraordinary items) on sales of $199,886,522 for the preceding year.

These operating results were realized despite loss of the 3% inventory tax credit which was discontinued in the 1987 year. Income taxes charged against earnings for the preceding fiscal year were reduced through inventory tax credits by $614,000 or $1.07 per share. Operating income in the current year increased by an amount which was more than sufficient to offset this additional cost.

A highlight of the past year was the Austin Drugs Division purchase on July 15 of all of the outstanding shares of Doncaster Medical Supplies Ltd. Doncaster was organized in 1968 and grew thereafter to become Canada's leading supplier of home health care and convalescent rehabilitation products for the sick and disabled. Doncaster both rents and sells durable medical equipment such as wheelchairs, bathroom safety aids, walking aids, patient lifts, wheelchair controls and electronic devices. It also sells a wide variety of medical supplies, including surgical supports, ostomy supplies, incontinent materials, backcare aids, aids to daily living and many other items. The addition of the Doncaster system to the many retail outlets of the Austin Drugs Division opens major opportunities to service the rising needs of convalescent and handicapped individuals in home settings across Canada.

Algonquin continues to be interested in investment and merchant banking activities and has enjoyed excellent results in these areas.

The company maintains close contact with the mining industry through the utilization of a full-time geology department at Head Office which permits in-depth studies of prevailing conditions in the industry. The department is financially self-supporting and provides technical and professional services to other companies for the coordination of exploration and development programs.

As in the past, the Company continues to remain alert to opportunities for accelerated growth through the acquisition of profitable businesses and investments.

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

### *AUSTIN DRUGS DIVISION*

Sales of the Austin Drugs Division increased by 9% during the past year. This Division is the largest contributor to sales and earnings of the Algonquin group and is headquartered in its own 53,000 square foot warehouse and office building at Concord, Ontario. Retailing activities are divided into three main segments: Woolco Licensee Operations; Jasco Drug Marts; and the Doncaster Home Health Care Division. In addition, Austin Drugs acts as operator of Phar Mor Super Drugs Inc., a joint venture activity owned equally between Algonquin and Grafton Group Limited.

### **Woolco Licensee Operations**

For more than a quarter of a century, Jack Austin Drugs Limited has operated pharmacy, health and beauty aid departments in Woolco junior department stores under license agreements with the F.W. Woolworth Co. Limited. Under these agreements Austin purchases and owns the inventories of products authorized by license for sale in Woolco stores; provides and supervises professional pharmacists and store personnel; and advertises and promotes sales of pharmacy, health and beauty aid departments in close co-operation with Woolco's own marketing programs. Austin Drugs today operates such activities in a total of 117 Woolco/Woolworth outlets across Canada from Quebec to British Columbia.

Results from these operations showed encouraging improvement during the past year after unsatisfactory performance in each of the two preceding years. This recovery reflects the results of intensive review with senior Woolco management of the Austin Drugs Division role in Woolco stores and the subsequent establishment of mutually acceptable longer term operating criteria. Sales increased only marginally, reflecting discontinuation of certain unprofitable activities. Further improvements in operating results of this Division are anticipated as changes implemented at intervals during fiscal 1986-87 will affect results throughout all of the current year.

Earnings of the Division have been progressively impacted over the course of the past three years by a continuing disagreement between pharmacists and the government of Ontario concerning dispensing fees and ingredient cost reimbursements to pharmacies under a major program whereby drug prescriptions for Ontario senior citizens and certain others are filled at government expense without charge to the recipients. Although pharmacists' wages and the costs of pharmaceutical supplies have increased significantly over the term of this dispute, the government arbitrarily imposed a price freeze on dispensing fees at levels set in 1983 and on reimbursement for prescription ingredients at acquisition costs established in 1984. The erosion of traditional gross margins resulting from this unfair and prolonged revenue freeze has been cumulative and severe. Under recent government legislation modest revenue increases were authorized, and a mediator has been appointed to make further recommendations to government. Together with other industry representatives, Austin Drugs continues its efforts to overcome the inequities of government actions in this important area which particularly affect the Division's Woolco Licensee Operations.

## Jasco Drug Marts

The operation of freestanding retail drug stores by Austin Drugs under the name Jasco Drug Marts commenced in 1984. The number of locations now operational stands at nine with an additional opening scheduled for August, 1987 in Peterborough, Ontario.

Sales of Jasco Drug Marts increased by 22% during the past year, but operating results were relatively unchanged reflecting competitive conditions in one market area. Significant improvement is anticipated in the current year. The Company continues to be interested in more rapid expansion of this Division through acquisition of existing stores in established locations.

## Doncaster Home Health Care

With the purchase of Doncaster Medical Supplies Ltd., the Home Health Care Division acquired seventeen Ontario retail outlets and one retail outlet in Halifax, Nova Scotia. Doncaster also maintains a leased 30,000 square foot warehouse and head office location in Markham, Ontario.

Since acquisition, management and head office functions have been consolidated at Austin Drug's headquarters at Concord and one poorly located Ontario retail store has been closed. It is expected that by October, 1987 the Doncaster warehousing activity will also be transferred to Concord. The rental rate of the former facilities at Markham is sufficiently favourable that a sub-lease tenant should be readily available.

As a result of absorbing integration and other consolidation costs essential to future success, the Home Health Care Division sustained a loss subsequent to the Doncaster acquisition. However, this Division is now well organized to take full advantage of its position as the best-known home health care supplier in its heavily populated established market areas.

A *new Doncaster* Home Health Care Centre will be opened at Peterborough in August, 1987 in new mall premises providing walk-through access to the adjoining Jasco Drug Mart being simultaneously introduced. Several other openings and relocations are currently being considered.

This Division is expected to produce positive results in the current year and to become a significant contributor to growth and earnings of the Austin Drugs Division in future years.

## Phar Mor Super Drugs Inc.

The objective of this joint venture with Grafton Group Limited was to establish a chain of super discount drug stores offering at highly competitive prices the product mix usually found in drug stores together with food and grocery items, women's, men's and children's wear, bath and bedroom products and housewares.

The first 20,000 square foot Phar Mor store was opened in Mississauga in December, 1985, and a second store was opened in October, 1986 in North York. Initial results were disappointing with a first year loss exceeding budget expectations. After a year in operation, the first store is now realizing impressive sales increases and the second store is showing good progress.

### *DOMINION CITRUS DIVISION*

Wholesale sales of fresh and packaged fruit, produce and other foodstuffs by the Dominion Citrus Division increased by 5% during the past year.

Activities of this Division are divided into three main areas of management responsibility: the Ontario Food Terminal Division (wholesaling imported and local fresh fruits and vegetables to the retail trade); the Dominion Farm Produce Division (grading and packaging of local and imported fresh vegetables for distribution to wholesalers and retailers); and the Skrow's Produce Division (distribution of fresh fruits, vegetables and grocery products to food service outlets).

## Ontario Food Terminal

This Division recorded encouraging sales gains and improved operating results during the past year. Per capita consumption of fresh fruits and vegetables continues to rise as calorie and nutrition-conscious Canadians seek healthy alternatives to meats and traditionally processed food products. Dominion Citrus is ideally equipped to profitably participate in this long term trend. Our Ontario Food Terminal Division continues to be one of the largest and strongest wholesalers of imported fruits and vegetables in Canada.

As part of its Ontario Food Terminal activities, this Division directs the operations of Country Fresh Packaging Company Ltd., which as a contract packer for retail chains and others, grades and tray-packages a variety of fresh products such as tomatoes, peppers, corn, apples and citrus fruits. Although Country Fresh results improved over the course of the past year, they remain below potential. Various alternatives to improve this performance are under review.

In the latter part of 1986, the Ontario Food Terminal Division entered into an equally-owned joint venture arrangement with Bell City Brands Ltd. covering the operations of Tomato King Ltd., a major fresh tomato importer and wholesaler on the Food Terminal. Bell City is the operator of Tomato King Ltd. and results to-date have been most gratifying.

## Dominion Farm Produce

Sales and earnings from Dominion's fresh vegetable grading and packaging operations again improved over the preceding year despite adverse 1986 crop and storage conditions in the local supply area at Bradford, Ontario. Installation in the current year of some of the most technologically advanced packaging machinery available will insure continued growth and a promising outlook for Dominion Farm and its familiar "Country Fresh" brands.

## Skrow's Produce

Operating results of our Skrow's food service distribution business paralleled those of the previous year while sales volume increased by 5%.

The servicing of increasing needs of restaurants, hotels, fast food outlets and institutional outlets in the Metropolitan Toronto area is being enhanced in the current year through Skrow's absorption since year end of the sales volume of a small fresh produce distribution business which was being discontinued. Operating plans for the current year anticipate significant increases in both sales and profits of the Skrow's Produce Division.

### *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.

Volume for the past year was relatively static and operating results reflected the highly competitive conditions which prevailed. Prospects for the current year are much more promising and significant improvement is anticipated.

### *SUMMARY*

The favourable operating performance of the past year provides Algonquin with an extremely sound financial base from which future opportunities may be developed to advantage.

## *AUDITORS' REPORT TO THE SHAREHOLDERS*

We have examined the consolidated balance sheet of Algonquin Mercantile Corporation as at March 31, 1987 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, 1987 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 8, 1987

## *CONSOLIDATED*

*as at*

| ASSETS | 1987<br>$ | 1986<br>$ |
|---|---|---|
| CURRENT ASSETS | | |
| Accounts receivable | 16,792,618 | 12,380,192 |
| Inventories | 48,339,484 | 43,799,400 |
| Income taxes recoverable | — | 1,010,160 |
| Prepaid expenses | 515,181 | 362,516 |
| Current portion of mortgages and loans receivable | 1,477,997 | 877,269 |
| | 67,125,280 | 58,429,537 |
| INVESTMENTS (note 2) | 1,450,973 | 4,947,418 |
| MORTGAGES AND LOANS RECEIVABLE (note 3) | 3,180,772 | 5,026,071 |
| FIXED ASSETS (note 4) | 7,711,526 | 6,147,107 |
| OTHER ASSETS (note 5) | 1,777,573 | 1,125,658 |
| | 81,246,124 | 75,675,791 |

C. H. Franklin
Director

E. R. S. McLaughlin
Director

# BALANCE SHEET

*March 31, 1987*

## LIABILITIES

| | 1987 | 1986 |
|---|---|---|
| | $ | $ |
| **CURRENT LIABILITIES** | | |
| Bank advances (note 6) | 17,924,610 | 21,546,282 |
| Accounts payable and accrued liabilities | 29,544,179 | 26,941,578 |
| Income taxes payable | 686,735 | — |
| Current portion of long-term debt | 2,635,343 | 1,283,932 |
| | 50,790,867 | 49,771,792 |
| **LONG-TERM DEBT** (note 7) | 8,626,161 | 6,611,505 |
| | 59,417,028 | 56,383,297 |

## SHAREHOLDERS' EQUITY

| | 1987 | 1986 |
|---|---|---|
| **CAPITAL STOCK** (note 8) | | |
| Authorized — | | |
| 853,423 5¢ Class A, non-voting, non-cumulative participating preference shares | | |
| 500,000 common shares | | |
| Issued and fully paid — | | |
| 128,583 Class A preference shares | 749,559 | 749,559 |
| 444,238 common shares | 1,970,520 | 1,970,520 |
| | 2,720,079 | 2,720,079 |
| **RETAINED EARNINGS** | 19,109,017 | 16,572,415 |
| | 21,829,096 | 19,292,494 |
| | 81,246,124 | 75,675,791 |

## CONSOLIDATED STATEMENT OF EARNINGS

*For the Year Ended March 31, 1987*

| | 1987 | 1986 |
|---|---|---|
| | $ | $ |
| Continuing Operations | | |
| Sales | 215,035,944 | 199,886,522 |
| Cost of Sales and Other Expenses | 208,809,460 | 194,544,399 |
| Depreciation | 1,510,016 | 1,330,578 |
| | 210,319,476 | 195,874,977 |
| | 4,716,468 | 4,011,545 |
| Other Income (note 9) | 2,993,874 | 767,930 |
| Earnings From Operations Before Interest | 7,710,342 | 4,779,475 |
| Interest (note 7) | 3,033,406 | 3,120,248 |
| Earnings From Operations Before Income Taxes | 4,676,936 | 1,659,227 |
| Provision for Income Taxes (note 10) | 1,768,000 | 134,000 |
| Earnings from Continuing Operations | 2,908,936 | 1,525,227 |
| (Loss) from Discontinued Operations | — | (479,249) |
| Earnings for the Year Before Extraordinary Items | 2,908,936 | 1,045,978 |
| Extraordinary Items | — | 136,976 |
| Net Earnings for the Year | 2,908,936 | 1,182,954 |
| Per Share: | | |
| Earnings from continuing operations | $5.08 | $2.66 |
| Earnings before extraordinary items | $5.08 | $1.82 |
| Net earnings for the year | $5.08 | $2.06 |

NOTE:
The Class A preference shares have been treated as common shares for the purposes of the calculation of earnings per share.

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

*For the Year Ended March 31, 1987*

| | 1987 | 1986 |
|---|---|---|
| | $ | $ |
| Retained Earnings — Beginning of Year | | |
| As previously reported | 17,297,955 | 16,429,363 |
| Prior period adjustment, net of income taxes (note 11) | 725,540 | 622,835 |
| As restated | 16,572,415 | 15,806,528 |
| Excess of cost of shares repurchased over paid-up capital | — | 72,872 |
| | 16,572,415 | 15,733,656 |
| Net earnings for the year | 2,908,936 | 1,182,954 |
| | 19,481,351 | 16,916,610 |
| Dividends | 372,334 | 344,195 |
| Retained Earnings — End of Year | 19,109,017 | 16,572,415 |

# CONSOLIDATED STATEMENT OF CASH FLOW

*For the Year Ended March 31, 1987*

| | 1987 | 1986 |
|---|---|---|
| | $ | $ |
| **Operations** | | |
| Earnings for the year before extraordinary items | 2,908,936 | 1,045,978 |
| Items not requiring an outlay of funds — | | |
| Depreciation and amortization | 1,510,016 | 1,885,110 |
| Gain on disposal of investments and fixed assets | (1,837,274) | (295,758) |
| Deferred income taxes | — | (869,000) |
| Other | — | (170,385) |
| | 2,581,678 | 1,595,945 |
| Cash (invested in) generated from operating working capital | (3,883,126) | 455,750 |
| Reduction of income taxes arising from utilization of prior years' losses | — | 290,000 |
| Loss on closure of plant | — | (477,928) |
| | (1,301,448) | 1,863,767 |
| **Investments** | | |
| Acquisition of Doncaster Medical Supplies Ltd. | (1,426,103) | — |
| Add: Bank advances assumed on acquisition | (1,562,837) | — |
| | (2,988,940) | — |
| Reduction in mortgages receivable | 1,244,571 | 907,882 |
| Proceeds on disposal of investments | 6,317,332 | 2,683,991 |
| Purchase of investments | (869,066) | (2,474,987) |
| Proceeds on disposal of fixed and other assets | 120,888 | 369,474 |
| Purchase of fixed and other assets | (1,895,398) | (1,932,295) |
| Bank advances of previously consolidated subsidiary at date of change in control | — | 4,982,754 |
| Purchase of minority interest shares in subsidiary | — | (21,164) |
| | 1,929,387 | 4,515,655 |
| **Financing** | | |
| Long-term debt incurred | 5,300,000 | 500,000 |
| Retirement of income debentures | — | (675,000) |
| Retirement of other long-term debt | (1,933,933) | (1,508,119) |
| Purchase of Algonquin Mercantile Corporation preference shares | — | (88,903) |
| | 3,366,067 | (1,772,022) |
| Dividends | (372,334) | (344,195) |
| Decrease in Bank Advances | 3,621,672 | 4,263,205 |
| Bank Advances — Beginning of Year | (21,546,282) | (25,809,487) |
| Bank Advances — End of Year | (17,924,610) | (21,546,282) |

# *NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*

*For the Year Ended March 31, 1987*

## 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 and prescription lists are amortized over 10 years and the leasehold interests over lease life, both on a straight-line basis. Goodwill arising prior to April, 1974 is not being amortized so long as there is no evidence of impairment in value.

## 2. Investments

Investments are as follows:

| | 1987 | | 1986 | |
|---|---|---|---|---|
| | Cost | Market | Cost | Market |
| | $ | $ | $ | $ |
| Listed shares | 1,349,713 | 1,142,025 | 4,546,168 | 7,435,224 |
| Other investments | 101,260 | | 401,250 | |
| | 1,450,973 | | 4,947,418 | |

## 3. Mortgages and Loans Receivable

Mortgages and loans receivable are as follows:

| | Current | Long-term | 1987 Total | 1986 Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Mortgages and loans at interest rates between 9.5% and prime plus 2%, maturing over terms of up to 4 years | 1,477,997 | 3,180,772 | 4,658,769 | 5,903,340 |

## 4. Fixed Assets

Fixed assets are as follows:

| | 1987 | 1986 |
|---|---|---|
| | $ | $ |
| Buildings and equipment — at cost | 15,487,133 | 13,021,875 |
| Accumulated depreciation | 8,431,510 | 7,530,671 |
| | 7,055,623 | 5,491,204 |
| Land — at cost | 655,903 | 655,903 |
| | 7,711,526 | 6,147,107 |

## 5. Other Assets

Other assets are as follows:

| | 1987 | 1986 |
|---|---|---|
| | $ | $ |
| Goodwill — at cost | 1,274,421 | 540,124 |
| Prescription lists — at cost | 535,000 | 535,000 |
| Leasehold interests — at cost | 533,000 | 533,000 |
| Other — at cost | 140,130 | 42,266 |
| | 2,482,551 | 1,650,390 |
| Accumulated amortization | 704,978 | 524,732 |
| | 1,777,573 | 1,125,658 |

## 6. Bank Advances

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

## 7. Long-term Debt

Long-term debt is as follows:

| | Current | Long-term | 1987 Total | 1986 Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Bank loans (note 6), at interest rates between prime plus ¼% and 11% due between December 31, 1988 and August 21, 1992 | 1,850,000 | 4,650,000 | 6,500,000 | 2,350,000 |
| Debentures at an average rate of 12.96% due January 15, 1991 payable $56,000 per month (see below) | 672,000 | 3,808,000 | 4,480,000 | 5,152,000 |
| Sundry mortgages and notes at interest rates ranging from 11½% to 14%, due between November 15, 1987 and October 15, 1990 | 113,343 | 168,161 | 281,504 | 393,437 |
| | 2,635,343 | 8,626,161 | 11,261,504 | 7,895,437 |

Repayments required on long-term debt in fiscal 1989 are $3,386,922, in fiscal 1990 $1,338,687, in fiscal 1991 $2,750,552 and in fiscal 1992 $150,000.

Interest on long-term debt for the current year amounted to $1,154,661 (1986 — $1,180,106).

Assets of subsidiaries having a carrying value of approximately $70,000,000 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 6.

## 8. Capital Stock

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.

The Board of Directors has approved, subject to shareholder and regulatory approval, the change of Class A preference shares to common shares on a share for share basis and the subdivision of the then issued common shares on a five for one share basis.

## 9. Other Income

| | 1987 | 1986 |
|---|---|---|
| | $ | $ |
| Net gain on disposal of investment in Cobi Foods Inc. | 1,917,177 | — |
| Net gain on disposal of other investments | 34,644 | 265,075 |
| Interest, dividends and royalties | 1,042,053 | 502,855 |
| | 2,993,874 | 767,930 |

## 10. Income Taxes

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

| | 1987 | 1986 |
|---|---|---|
| | % | % |
| Combined basic federal and provincial income tax rate | 52.9 | 51.9 |
| Increase (decrease) in income tax rate resulting from: | | |
| Inventory allowance | — | (37.0) |
| Tax exempt investment income | (15.8) | (10.4) |
| Manufacturing and processing deduction | (1.4) | (2.7) |
| Other | 2.1 | 6.3 |
| Effective tax rate | 37.8 | 8.1 |

## 11. Prior Period Adjustment

As a result of an unsuccessful court action brought against a competitor for alleged design infringement, the competitor has been awarded $620,000 in damages and $380,000 in interest. While the amount of such damages has been appealed to the Federal Court of Appeal, the total amount awarded has been recorded as a prior period adjustment. Any significant reduction in the amount finally awarded will be similarly recorded.

## 12. Segmented Information

The company operates in three business segments as follows:

(a) Drug retailing

— The operation of retail drug and convalescent aid 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

12. Segmented Information (continued)

| | Drug retailing 1987 | Food wholesaling 1987 | Other 1987 | Consolidated 1987 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Sales to third parties | 133,475,387 | 50,093,474 | 31,467,083 | 215,035,944 |
| Segment operating profit | 3,896,398 | 958,816 | 1,145,888 | 6,001,102 |
| Other income | | | | 2,993,874 |
| General corporate expenses (net) | | | | (1,284,634) |
| Earnings from operations before interest | | | | 7,710,342 |
| Interest expense | | | | (3,033,406) |
| Income taxes | | | | (1,768,000) |
| Net earnings for the year | | | | 2,908,936 |
| Identifiable assets | 59,757,097 | 4,687,398 | 9,924,330 | 74,368,825 |
| Corporate assets | | | | 6,877,299 |
| Total assets | | | | 81,246,124 |
| Capital expenditures | 1,000,628 | 260,212 | 634,558 | 1,895,398 |
| Depreciation | 712,660 | 233,521 | 563,835 | 1,510,016 |

| | 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 | | | | (3,120,248) |
| Income taxes | | | | (134,000) |
| Loss from discontinued operations | | | | (479,249) |
| Extraordinary items | | | | 136,976 |
| Net earnings for the year | | | | 1,182,954 |
| 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 |

## *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*
*Algonquin Mercantile Corporation*

□*Robert M. Franklin
*Vice Chairman and Chief Executive Officer*
*Algonquin Mercantile Corporation*

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

□Francis D. Lace
*Honorary Director*
*Dominion Securities Inc.*

*Charles C. Laking
*Retired Executive*

**E. Richard S. McLaughlin
*Chairman*
*Canada Transport*
*International Limited*

*Donald E. McQuigge
*Retired Executive*

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

†Chairman, Executive Committee
□Executive Committee Members
**Chairman, Audit Committee
*Audit Committee Members

## *EXECUTIVE OFFICERS*

C. H. Franklin
*Chairman of the Board*

D. H. Kirstine
*Vice President Finance and Treasurer*

R. M. Franklin
*Vice Chairman and Chief Executive Officer*

W. R. Abbott
*Vice President and Secretary*

A. W. Walker
*President and Chief Operating Officer*

M. J. Gardner
*Assistant Secretary*

## *CORPORATE INFORMATION*

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Tel: (416) 962-8600
Fax: (416) 962-4666
Tlx: 06-22891

*Auditors:*
Coopers & Lybrand, Toronto

*Solicitors:*
Fasken & Calvin, 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
Trading Symbol AM

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